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Financial Sector Review and Strategy

USAID's Recent Efforts to Improve Financial Markets' Efficiency

TASKS 3 AND 4 REPORT

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VIII. LIST OF ACRONYMS

Accelerated Microenterprise Assistance Project	AMAP
Central Eastern Europe	CEE
Center for Development Information and Evaluation	CDIE
Consulting Assistance to Economic Reform	CAER
East West Management Institute	EWMI
Economic Growth Agriculture and Trade	EGAT
Europe and Eurasia	E&E
Federal Deposit Insurance Corporation	FDIC
Financial Sector Development	FSD
Financial Sector Development Program	FSDP
Financial Sector and Privatization	FSP
Financial Sector Volunteer Corp	FSVC
Freedom Support Act	FSA
General, Business, Trade and Investment	GBTI
Indefinite Quantity Contract	IQC
Institutional Reform and the Informal Sector	IRIS
Legal and Institutional Reform	LIR
Office of Economic Analysis	EA
Office of Emerging Markets	EGAT/EM
Microfinance Insitution	MFI
Non-Bank Financial Institution	NBFI
Partners For Financial Stability	PFS
Policy Coordination Bureau	PPC
Private Enterprise Development Support	PEDS
Professional Service Contractor	PSC
Scope of Work	SOW
Security and Exchange Commission	SEC
Small and Medium Enterprise	SME
Support for Economic Growth and Institutional Reform - Finance Sector	SEGIR FS
Support for Eastern European Democracy Act	SEED
Technical Assistance	TA
Temporary Duty Assignments	TDY

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I. EXECUTIVE SUMMARY

I.A. Rationale for Financial Sector Development Assistance

While USAID's priorities have shifted various times over the past forty years, its overall objectives have consistently included 1) alleviating poverty, 2) helping developing countries achieve sustainable economic growth based on market principles, democracy and the rule of law, and 3) promoting US interests abroad. The third objective can support the first two - US economic and security interests are broadly served by the promotion of economic growth and the alleviation of poverty in developing countries, as these activities both generate trade opportunities and promote political stability. USAID has long realized that achieving impact requires focus. As President John Kennedy warned in 1957, four years before USAID was created, the US "cannot scatter its assistance on each parched patch of misery and need…Successful foreign aid must be selective." USAID has known since the Kennedy years that it can best achieve its objectives by focusing on countries that demonstrate commitment to reform, are willing to take tough decisions and commit resources in support of reform, and broadly adhere to the principles of a free market economy, democracy and the rule of law.

Helping developing and transitional countries strengthen their financial sectors is a very effective way by which USAID can achieve the three objectives listed above. As the World Bank's Caprio and Honohan stated,

> "Having a financial system that does a good job of delivering essential services can make a huge difference to a country's development. Ensuring robust financial sector development with the minimum of crises is essential for growth and poverty reduction, as has been repeatedly shown by recent research findings."

Not only can financial sector development (FSD) assistance facilitate growth and alleviate poverty, it can also promote US interests by ensuring stability, securing the free flow of capital, and reducing future needs for emergency assistance.

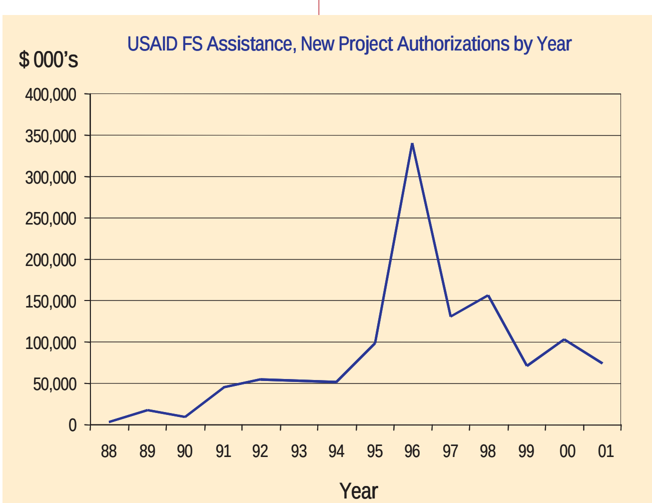
By allocating capital to the most productive uses, a financial system acts as the linchpin for an entire national economy. Banks and securities markets, for example, attempt to direct funding to those investments. Pension systems perform the same function and also directly protect against poverty in old age, while insurance sectors reduce the economy's vulnerability to risks. Microfinance institutions and most Small Medium Enterprise (SME) and rural finance programs can also alleviate poverty and allow traditionally marginalized segments of society to contribute more fully to the economy by providing access to capital. It is no exaggeration to say that, in the absence of a properly functioning financial system, even the best economic assistance initiatives will have only limited, short-term effects.

Thus, financial sector development assistance has rightly been a key element in USAID's overall strategies over the years, and should continue to play a central role in the future. The objective of this paper is to analyze how USAID's financial sector development activities have been directed in the past and, drawing on the lessons of the past, identify lessons for the future.

I.B. Overview of USAID's Involvement in Financial Sector Development: Key Findings

Before previewing the results of our analysis, it is important to state two conditions that significantly inhibited the breadth and depth of this paper. First, the analysis contained in this paper is only as good as the information we were given. In examining USAID's files, we found that the quality and quantity of data available for each project varied widely - thus it was sometimes difficult to make direct comparisons and we were forced to rely on reasonable assumptions. Second, while substantial information on inputs was available (i.e. project costs, contracting mechanisms, statements-of-work, etc.), very little information concerning outputs was available. Since only a very few USAID projects undertaken during the period of analysis (1988-2001) were subjected to rigorous performance evaluations, it was difficult to assess the impact of any given intervention in terms of USAID strategic objectives. In one sense, therefore, the information that was missing is more instructive than the information that was available - as we will see in the pages that follow.

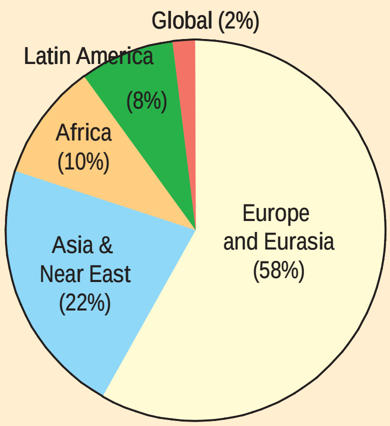
Between 1988 and 2000, USAID spent just over $1.2 billion on financial sector development assistance through 761 individual interventions in some 87 client nations. The number of interventions initiated in a given year has fluctuated from a low of 14 (in 1988) to a high of 101 (in 1996), while the total expenditure on financial sector development assistance has also fluctuated annually, as seen in the chart at left. On average, about 54 new projects were initiated each year with an average cost of about $1.6 million per project. However, the cost per project has tended to increase over the past 14 years, from an average of $337,000 in 1988-90 to an average of $1.75 million per project in 1999-2001. It is not clear whether the changes in the level of new FSD authorizations each year reflect changes in the overall USAID budget or changes in the level of priority of FSD work relative to other areas. Nor is it clear whether the increase in average cost per project reflects a wider trend within USAID or is specific to financial sector assistance projects. In light of this finding, USAID might wish to look into the factors that determine the



level of financial sector development spending as a percentage of total budget - is the allocation process top-down (i.e. driven by changing political priorities) or bottom-up (i.e. driven by client countries' needs)?

Well over half of the 14-year total of $1.2 billion went to countries in Europe and Eurasia (E&E), while the rest was spent more-or-less evenly among other regions, as seen in the chart to the left. This division should not be surprising given the high priority that post-Communist economies have received in the last decade. Within Europe and Eurasia, the funds were spread among 27 countries. It is interesting to note that, according to the World Bank's 1998 income criteria, 38% of the money was spent in low income countries, while 46% was spent in lower middle-income countries and 10% was spent in upper middle income countries. This division seems to represent at least an implicit triage approach to funds allocation combined with a focus on poverty alleviation. In other words, one would assume that financial sector development is not the highest priority for the poorest countries - USAID funding in such countries would likely focus on food security and emergency assistance, for example. In lower middle income countries (like many in the E&E region), however, financial sector problems might well represent a critical constraint to development, so financial sector development assistance would be more effective than in poorer countries. Following this reasoning, one might expect to see an even greater relative allocation of funds towards middle income countries, but this effect might be mitigated by USAID's focus on helping the poorest. Presumably, financial sector assistance is less important in upper middle income countries because their level of development is higher.

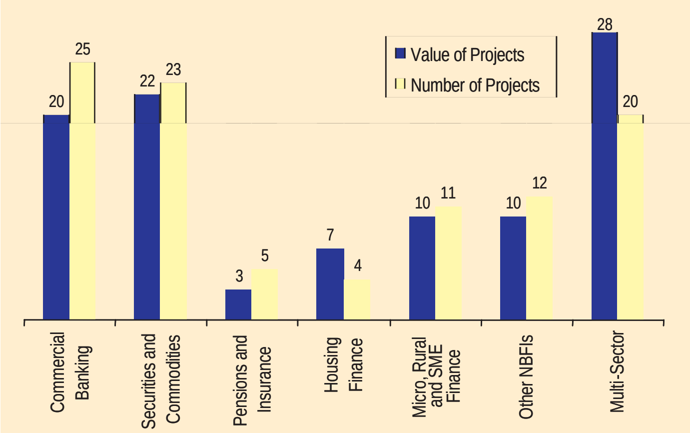
USAID FSD Assistance by Region



Total = $1.2 billion

To test this hypothesis, we analyzed allocation of funds among countries according to their level of financial sector development, using bank (and near-bank) credit to the private sector as a share of GDP as a rough proxy. The results were broadly consistent with those given above, but with a slightly greater focus on the least-developed countries: 40% of funds went to countries with the lowest level of financial sector development while 36% went to those in the middle and 22% to those countries at the highest level.

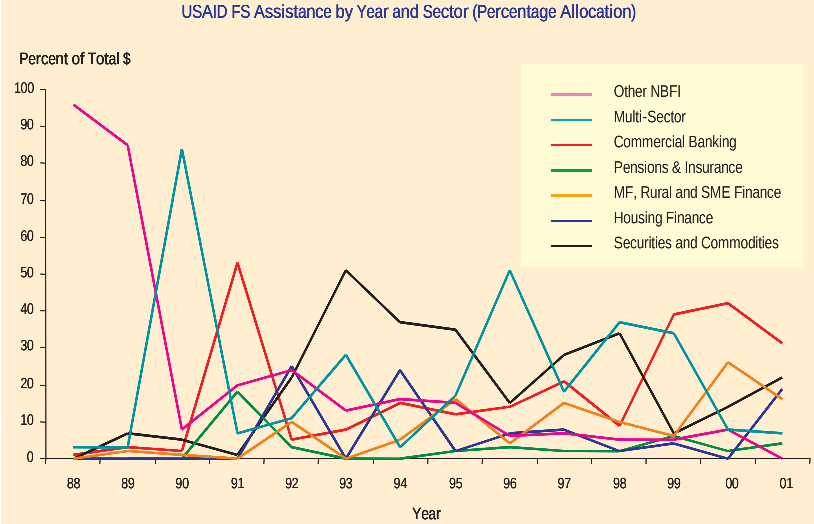
USAID FSD Interventions by sub-sector, Percentages 1988-2001



Financial sector interventions can be divided into seven categories based on the targeted subsector: commercial banking; securities and commodities; pensions and insurance; housing finance; micro-, rural and SME finance; other non-bank financial institutions (NBFIs); and finally, multi-sector interventions. The chart at left illustrates how USAID has distributed its efforts among these subsectors, both in terms of dollars and number of projects. As the chart shows, a fifth of all USAID's FSD projects have involved assistance to more than one subsector, while commercial banking and securities and commodities (capital markets) make up the bulk of subsector specific interventions. It is interesting to note that USAID seems to have dedicated relatively little effort to pensions and insurance, despite the increasingly apparent importance of this subsector for economic growth and income security - although some work in pensions and insurance might be "hidden" within the multi-sector category. The fact that percentages of total value and percentages of total number of projects are broadly similar for each subsector indicates that the average size of a USAID FSD project does not vary much across subsectors. Projects in the housing finance subsector had the highest average value at $2.6 million, while projects in pensions and insurance were the smallest, with an average size of just over $1 million.

The chart above, however, presents only total allocations over a period of fourteen years and thus masks the large fluctuations in subsector allocations that have taken place over that period. In 1991, for example, pensions and insurance accounted for 18% of total FSD new project authorizations but then fell to 3% in 1992 and never rose above 4% thereafter. Securities and commodities made up more than a third of the total in 1998, but fell to 7% the next year as commercial banking moved in the opposite direction - going from 9% in 1998 to 39% in 1999. The chart at left illustrates the allocation of new project authorizations by subsector as a percent of the total for each year of analysis.

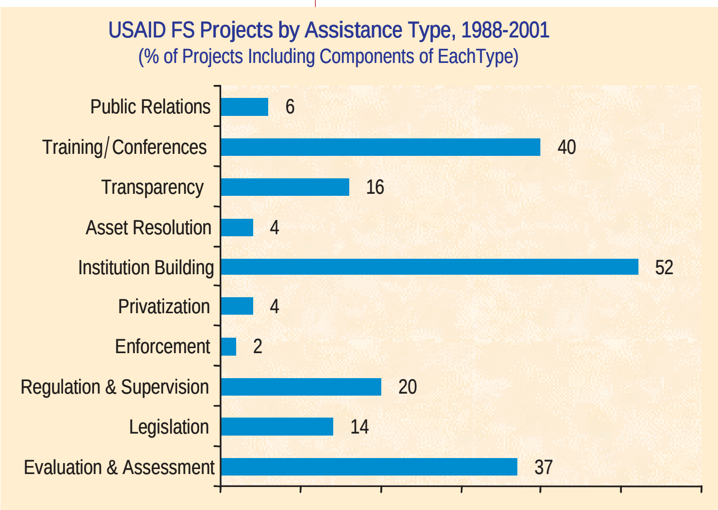
USAID FS Assistance by Year and Sector (Percentage Allocation)



There are at least three possible explanations for this high level of fluctuation among subsectors. First, the distribution could be skewed by one or two large projects in a given year. For example, a single, $20 million project in commercial banking authorized in 1999, for example, would have alone accounted for that subsector's increase from 9% to 39% of the total. Second, as the nature and size of projects are largely dictated by missions rather than by a centralized office, the variety in funding across subsectors over time could simply represent an appropriate response to changing needs across a large number of countries and a long time period. A third, and less generous, interpretation could be that the wide changes in funding levels across subsectors could represent responses to changing political whims or a fairly random approach to funding priorities. In any case, the data suggest that USAID might consider looking more closely into the criteria and procedures that are used to determine funding priorities both within and across missions.

We analyzed the quantitative data across two additional dimensions - type of beneficiary institution and type of assistance. First, projects across all subsectors were categorized according to the nature of the beneficiary - over the period of analysis 18% of USAID's FSD projects by number and 14% by value were aimed exclusively at regulatory agencies, while 43% of projects and 31% of value were aimed exclusively at market participants, such as banks, Non Bank Financial Institution (NBFI)s, stock markets, pension funds, etc; 36% of the projects representing 55% of the total value of FSD authorizations involved both regulators and regulated entities, while a small number of projects (29) representing a negligible percentage of total funds was directed within USAID, for internal training, conferences and other capacity building activities related to financial sector development. Interestingly, the percentage of the number of projects within each subsector targeted to regulators vs. regulated institutions vs. both has varied widely. For example, 61% of housing finance projects, 72% of micro, SME and rural finance projects and 77% of other NBFI projects were targeted exclusively to market institutions, with no component of the projects addressing regulators' needs. In many countries, the lack of proper regulation of microfinance institutions, other NBFIs and, to a lesser extent, housing finance is increasingly being recognized as a major constraint to financial sector development. USAID might wish to consider targeting more interventions to regulators in these subsectors.

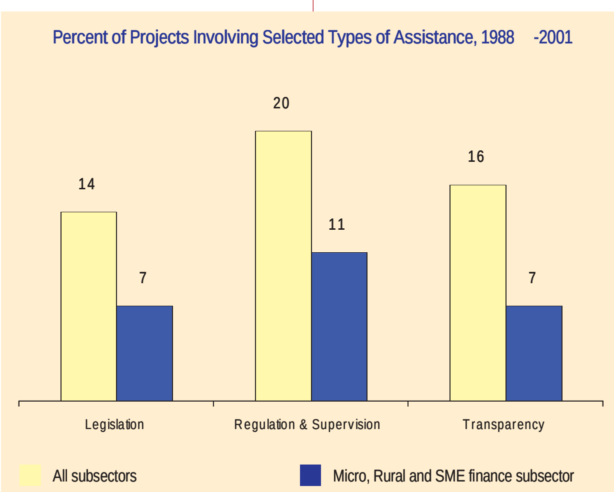
Next, we analyzed the quantitative data in terms of types of assistance provided, using the ten categories shown in the chart on the following page. Since most FSD projects combine elements of more than one category, we intentionally double-counted. In other words, the percentages shown in the chart describe the number of projects that included a component within each assistance category, so the sum of percentages exceeds 100. Slightly over a third of projects involved evaluation or assessment, so for every one project that conducted some sort of initial evaluation to determine assistance needs, there were almost two projects that did not do so. It would be useful to know whether projects that did not include an evaluation/assessment component were designed in response to assistance needs that had been identified through earlier projects, or whether they were designed in response to missions' perceptions of what was needed, or in response to client governments' expression of assistance needs. This finding suggests an opportunity for USAID to examine more closely how development needs are identified and how projects are designed.



It is also interesting - and encouraging - to note that over half of all FSD assistance projects included an institution building component while 40% included training. On the other hand, only 6% of projects included a public relations component and less than 2% of projects addressed the enforcement of regulations - even of the 136 projects that were aimed exclusively at regulatory agencies, only 5 included any work on enforcement. It is well known that market reforms most successfully take root when their benefits are explained to and accepted by market participants and political constituencies - "buy-in" is an important determinant of long-term impact. Moreover, more than a third of USAID's FSD projects over the past 14 years have included work on legislation, regulation and supervision. Presumably, many of the countries that benefited from this assistance have witnessed improvements in their financial sector’s legal and regulatory regimes as a result. The next logical step would seem to be to ensure that the new laws and regulations are properly enforced. Our experience working in capital markets reform in countries like Romania, Macedonia, Indonesia and Thailand, for example, suggests that the need to effectively enforce existing regulations can often be greater than the need for new or revised regulations. These findings suggest that USAID might wish to consider incorporating public relations and enforcement activities into a larger number of its FSD projects.

Finally, we cross-referenced the ten types of assistance shown above with the seven subsectors discussed earlier. While the allocation of assistance types was broadly similar across subsectors, there were several interesting anomalies, all of which occurred in the 'pensions and insurance' and 'micro, rural and SME finance' subsectors. First, keeping in mind the earlier finding that pensions and insurance accounted for only 5% of USAID's FSD projects over the past 14 years, it should not be surprising to see that 50% of these projects involved an evaluation/assessment component, against an average of only 37% for all subsectors - this would seem a prudent response to USAID's relative lack of experience in this subsector. While only 4% of all projects involved privatization work, 19% of pensions and insurance projects included privatization - this probably reflects the trend towards 'multi-pillar' pension schemes combined perhaps with the privatization of state-owned insurance providers in transitional economies. Finally, 17% of pensions and insurance projects involved public relations, against a cross-subsector average of just 6%. This probably reflects the fact that changes in mandatory pension schemes affect the general population, while changes in areas such as commercial bank regulation or securities markets have a more limited - or at least less visible - impact on the population.

Only 7% of projects in the micro, rural and SME finance subsector included legislative components, only 7% included transparency and only 11% included regulation and supervision. The averages across all subsectors for these three assistance types are 14%, 20% and 16% respectively, as seen in the chart at left. In other words, USAID's allocation of resources suggests that these three closely related areas are only roughly half as important for micro, rural and SME finance as they are for other subsectors. This has probably been true for most of the past fourteen years - emphasis was correctly placed on simply ensuring that financing was made available to microenterprises, farmers and SMEs - but the situation is now clearly changing. In many countries, for example, microfinance institutions (MFIs) cannot collect deposits because they cannot comply with the regulatory requirements for deposit-taking institutions. This inhibits their ability to grow and provide better services to their clients. Moreover, MFIs and SME lending institutions often cannot attract commercial investment because they lack transparency and a stable regulatory/legal framework under which to operate, which also inhibits the growth of the sector. USAID's Office of Microenterprise Development has recently issued a new Indefinite Quantity Contract (IQC) called AMAP - Accelerated Microenterprise Assistance Project - including an "Enabling Environment" component that can be used to provide technical assistance in building appropriate legal and regulatory frameworks for MFIs, which would also improve transparency. We would suggest that USAID consider employing AMAP and other mechanisms to more fully address the legal and regulatory environment for micro, rural and SME finance programs.



I.C. EGAT/EM Activities Compared to Overall USAID Activities

Since 1988, USAID's Office of Emerging Markets (EGAT/EM) funded 401 projects worth $249 million. Using the same analyses to EM's portfolio as were used for USAID overall, we found that EM's financial sector development activities - which account for about 20% of the total funding, but more than half of the projects - followed broadly similar patterns as those of the Agency as a whole. The division of funds and projects among regions, for example, was almost exactly the same. However, the following exceptions to this general pattern stand out:

- EM-initiated FSD assistance projects favored least-developed countries more: 53% of EM's funding went to lower middle income countries and only 5% went to upper middle income countries as compared to 46% and 10%, respectively, for USAID as a whole. Moreover, 50% of EM's projects by value were in those countries in the lowest stage of financial sector development, while USAID as a whole spent only 40% of its money in these countries.

- EM focused more on commercial banking and less on other NBFIs and multisector projects: 33% of EM's FSD funding was allocated to the banking subsector as opposed to 20% of overall USAID funding; conversely, EM spent 3% of its funds on other NBFIs and 17% on multisector projects while USAID as a whole spent 10% and 28% on these subsectors, respectively. EM spending on other subsectors was in line with USAID overall.

- EM focused more on pre-project evaluation/assessment and less on institution building: In terms of types of assistance, 57% of EM projects included a pre-project evaluation/assessment component, while only 37% of USAID's 761 projects did so. However, only 31% of EM projects involved institution building while 52% of USAID projects did. This divergence might reflect the fact that EM, as a centralized support office, bears greater responsibility for evaluating client country needs and assessing project results, while missions are better placed to offer direct capacity-building assistance to market institutions and regulators.

- EM has played a leading role in pension and insurance and micro, rural and SME finance: While EM accounts for only 20% of all USAID FSD spending, 45% of funding for pensions and insurance and 31% of funding for micro, rural and SME finance passed through EM.

Taken together, these findings reflect EGAT/EM's role as a centralized office with special responsibility for the least-developed countries and for identifying and disseminating successful types of interventions. Thus, the divergences between EM funding patterns and those of USAID as a whole would seem to be appropriate. However, there were three earlier findings that might indicate ways in which EGAT/EM can strengthen its support role. First, it was noted earlier that very little information was available on the outputs associated with individual projects, or the impact they achieved against USAID's strategic objectives. This suggests a need for a rigorous and standardized impact assessment approach. Second, we noted that the allocation of new FSD authorizations by subsector has varied somewhat erratically over the past fourteen years, and it was also noted that only slightly more than a third (37%) of USAID FSD projects have included an evaluation or assessment component. These two findings might indicate a need to develop cost-effective tools for identifying and prioritizing financial sector development needs that individual missions can employ to originate and design projects. Third, two apparent "weak spots" in the USAID portfolio of FSD assistance projects were noted. Very little has been spent on pensions and insurance reform relative to other areas, and within the micro, rural and SME finance subsector, relatively little focus has been given to legal, regulatory and transparency issues. This suggests a need within USAID to anticipate - rather than react to - emerging issues in specific client countries. EGAT/EM, with its bird's-eye view of USAID FSD activities across missions and its in-house technical expertise in financial services, should be well placed to address the three needs identified above: project impact assessment, project selection and design criteria, and early identification of emerging issues in financial sector development.

I.D. USAID's Use of Contracting Mechanisms and Other Assistance Approaches

Broadly speaking, USAID's financial sector development assistance can take three forms: 1) technical assistance to market entities or regulators, typically provided by contractors engaged either directly by missions or through a global contracting vehicle; 2) direct funding of lending, loan guarantee or grant programs; and 3) financial sector development assistance channeled through a USAID program with a different primary objective, such as health care, agriculture or microenterprise development.

The last two forms are largely outside the scope of this report, but our analysis and our experience leads to two general observations:

1. Loans, grants and guarantee programs: In 1998, Congress authorized the Development Credit Authority, which can guarantee loans from private financial institutions in order to facilitate credit to microenterprises and SMEs, for example. In the early 1990s, USAID made grants to Enterprise Funds in Poland, Hungary and other countries that either on-lend or guarantee others' loans. Most recently, USAID has provided loan funds to SMEs in Kosovo and Bosnia, among other countries. These programs can fill an important gap in local financial markets. However, it is important to continue to ensure that these direct programs support rather than hinder the devel-

opment of an efficient market. Micro or SME loan programs, for example, that offer subsidized rates of interest tend to 'spoil the market' and make it more difficult for commercial interests to lend to these segments. Thus, in the long run, such programs can delay rather than expedite financial sector development.

2. Financial sector development through other programs: Programs like USAID's Commercial Market Strategies project and its associated Summa Foundation provide loans to NGOs and small business that provide community-oriented health services. The various initiatives carried out by the Office of Microenterprise Development over the past decade have had a strong focus on integrating microfinance institutions into the formal financial sector. While financial sector development is not the primary objectives of these and other programs, they can provide USAID's financial sector experts with useful, grassroots-level knowledge of the impact of FSD-related constraints on the lives of the poor, which in turn can help in designing more effective FSD projects and in linking FSD more closely to poverty alleviation. At the same time, USAID's financial sector experts can help ensure that these programs do not inadvertently conflict with broader FSD objectives in a given country.

Over the past fourteen years, a great deal of the first form of assistance listed above has taken place through a number of global or regional contracting mechanisms. In the early 1990s, the Europe and Eurasia (E&E) Bureau launched the Omnibus I and II IQCs. Similarly, EM's predecessor office managed the Financial Sector Development Program I and II from 1988 to 1998 and the IRIS and CAER contracts (described in more detail in the report). In mid-1997, EM introduced five IQCs under the umbrella SEGIR program (Supporting Economic Growth through Institutional Reform), one of which was for Financial Services. Since SEGIR's inception, some $196 million in financial sector development assistance has been authorized through its five IQCs, representing 16% of the total for all sectors. Interestingly, of 116 financial sector projects authorized under SEGIR, only 68 were contracted through the Financial Services component. The remaining 48 projects were contracted through a combination of the other four components. Since financial sector work can, and frequently is, contracted through any one of the five SEGIR IQCs, there are perhaps 20 contractors (or consortia) that USAID can assign to carry out its FSD projects. It is therefore surprising to see that some 40% of all SEGIR financial sector development projects (worth $80 million) has been awarded to a single contractor - KPMG/Barents Group.

In a competitive environment like that created by the SEGIR contracting mechanism, one would expect to see a less-than-even distribution of awards among contractors. Those contractors that perform better should be rewarded with more work, while those that underperform should find their inability to win projects sufficient incentive to improve their performance. Nevertheless, this market mechanism tends to fail in the absence of any formal performance evaluation methodology for USAID's financial sector projects. In other words, there is no objective, verifiable evidence that Barents' performance on FSD projects has been significantly better than that of any of the other contractors. It is not clear what other reasons might lie behind this overwhelming imbalance among SEGIR contractor. In any case, the combination of a heavy preference for a single contractors and an absence of objective performance criteria underlines the need for at least some formal evaluation of USAID's FSD project results.

As the "owner" of the SEGIR IQCs and presumably of its successor IQCs, EGAT/EM might wish to consider expanding its role in educating missions on the use of such IQCs and subsequently monitoring their use. However, expanding these and other roles requires resources - this issue will be addressed below.

I.E. Implications of the Report Findings for USAID: Top Ten Suggestions

The findings summarized in the preceding pages and detailed in the report suggest a number of opportunities for USAID to strengthen its ability to meet its financial sector development objectives. Several of these opportunities were mentioned earlier and are summarized below:

1. **Confirm or revise the current means of determining FSD spending levels:** Currently, FSD spending levels seem to be driven by a combination of top-down factors, such as Agency priorities and Congressional mandates, and bottom-up factors, such as the setting of strategic objectives and funding decisions within the missions. The tension between these two forces can be seen in the wide year-to-year fluctuations both in terms of total FSD spending and in terms of FSD spending across subsectors. While these fluctuations might represent an appropriate response to changing needs in client countries, they would seem to warrant a review of the budget allocation process for and within the financial sector programs.

2. **Assess the ways in which missions prioritize and fund FSD projects:** Again, the year-to-year fluctuation across financial subsectors might be a responsive, demand-driven approach to changing needs in individual countries, but it might also indicate a somewhat fickle, "flavor of the month" approach to financial sector development among some missions. EGAT/EM or another central office might be well placed to act as a sounding board for missions as they set their funding priorities and design specific projects, possibly by developing and distributing needs assessment tools that missions can use to identify the most important constraints to financial sector development and by disseminating "lessons learned" and best practice approaches from previous projects that missions can then use to design and manage more focused and effective interventions.

3. **Allocate funding and know-how to evaluating project results:** As mentioned earlier, it is impossible to say definitively "what USAID is good at" or in which areas it can improve based on the available data, because very few impact or performance assessments have been done. As the old saying goes, "those who fail to learn history are doomed to repeat it." With recent budget cuts limiting USAID's ability to collect and disseminate information across missions, it is not clear that USAID is learning from its own history, at least in terms of FSD. Again, EGAT/EM (EM) should be well placed to develop and utilize new impact assessment tools if it is provided with sufficient financial and human resources.

4. **Focus on legislation, regulation and supervision for MFIs and other NBFIs as needed:** It was mentioned earlier that EM can play a leading role in identifying and helping missions to address emerging issues in financial sector development. EM and the E&E Bureau have led the way, for example, in focusing assistance on pension and insurance reform and continue to do so. It is increasingly clear that the regulation and supervision of MFIs, and to a lesser extent, other NBFIs, is becoming a major constraint to development - and to poverty alleviation efforts - in many countries. Yet, to date, USAID has spent relatively little in these areas. By cooperating with OMD and perhaps by utilizing the AMAP Enabling Environment IQC, EM can help missions to address these issues proactively.

5. **Focus on enforcing existing laws and regulations rather than creating new ones:** More than a third of USAID's financial sector development activity over the past fourteen years has focused on developing new laws and regulations so, presumably, a number of countries are now equipped with robust and effective legal and regulatory frameworks for the financial sector. Field experience suggests, however, that regulatory agencies in many countries still lack the capacity, political independence, or resources to enforce the laws and regulations effectively. So far, USAID has devoted a relatively small portion of its assistance money to this area; in some client countries, greater spending on enforcement may now be warranted.

6. **Continue to acknowledge the importance of public relations:** As mentioned, only 6% of projects involved any public relations component, despite the well-known fact that the success of any reform depends largely on the extent to which politicians understand and "buy in" to the benefits it will bring. Accordingly, it would make sense to incorporate this type of consensus building activity more formally into financial sector development projects, many of which depend on politicians to make difficult decisions in support of reform. Public relations need not mean only publishing newspaper articles or drafting radio commercials - it can also involve quantifying and

projecting the economic benefits of a proposed reform, for example, or drafting white papers for parliamentary committees as has been done so very successfully under an FS-related project in the Phillippines.

7. **Craft projects in response to specific country needs, not according to general trends:** We have identified MFI regulation, financial sector enforcement and public relations as potential areas for increased focus in the future. However, USAID should continue to take care not to look for "grand theories" of financial sector development or attempt to apply standard priorities and approaches across disparate countries. Rather than trying to anticipate the "next big thing" in financial sector development, we believe the Agency's time would be better spent designing needs assessment tools and developing cost-effective impact assessment methodologies that mission staff can use to craft responsive, demand-driven projects, evaluate their impact against objectives and, based on this information, continue to improve project design as it is adapted to changing conditions.

8. **Allocate sufficient financial and human resources to central functions:** One of USAID's key strengths over the years (as described in the report) has been the permanence and capacity of its missions in virtually every client country. Decision making and budget authority have increasingly been devolved to the missions, for good reasons, and has likely resulted in more responsive and appropriate programs. The work of implementing specific projects and task orders was long ago largely outsourced to contractors. Perhaps as a result, USAID's central offices have witnessed reduced funding levels and senior, technically competent officers have become, to some degree, little more than contract administrators. EM, for example, has been forced to eliminate several useful functions as a result of budget cuts. The new tasks we have suggested here, such as developing needs assessment tools, designing project impact measurement techniques, disseminating lessons learned, anticipating emerging issues and monitoring missions' use of contracting mechanisms, are all important and can best be taken on by central, global bureaus like EGAT/EM. Carrying out these functions properly, however, will require sufficient budgets for travel and research as well as the ability to attract and retain qualified personnel by offering attractive compensation packages that are competitive with opportunities in the private sector.

9. **Find opportunities to cooperate with programs in other sectors**: As mentioned, current programs managed by other parts of USAID focused on healthcare, agriculture, microenterprise development and other areas often touched upon financial sector development issues. These programs offer an opportunity for the Agency's financial sector experts to gain new and useful perspectives on FSD constraints as well as an opportunity to broaden the impact of FSD programs and ensure consistency across sector-specific programs.

10. Continue to link financial sector development to poverty alleviation: Unlike programs in child welfare, education, emergency assistance or healthcare, financial sector development assistance projects provide few photo opportunities. The impact of FSD programs on economic growth or equity are more difficult to quantify and less immediate than those of other types of assistance. Therefore, to ensure continued and consistent political support for reform - both in the US Congress and among client country governments - USAID must repeatedly make the case for FSD, preferably by demonstrating real or potential impact in tangible, quantifiable terms. To this end, improved evaluation of projects should help, as would perhaps the funding of small research projects designed to measure the impact, for example, of a new pension scheme on the incidence of poverty or better enforcement of capital markets regulations on GDP growth.

Finally, our report suggests that EGAT/EM can play a larger role in driving regional initiatives, which the current mission-driven approach to project design is not well equipped to do. For example, regional stock markets might be a more effective approach in the long run than establishing national stock markets in small countries like Montenegro or Moldova. Also, with a larger budget to devote to research and information dissemination, EGAT offices could address larger issues of financial sector development that are relevant to all USAID missions; for example, determining the optimal sequencing of reform initiatives, under particular circumstances.

Based on our findings, it is clear that there are a number of opportunities for USAID to heighten its impact on global financial sector development, and it is clear that USAID's central offices like EGAT/EM and E&E are well placed to pursue these opportunities and play a stronger coordinating role in the Agency's financial sector development, if they are given sufficient resources to do so.

II. INTRODUCTION

Summarizing a large number of research studies, two World Bank economists, Gerard Caprio and Patrick Honohan, concluded:

> Having a financial system that does a good job of delivering essential services can make a huge difference to a country's development. Ensuring robust financial sector development with the minimum of crises is essential for growth and poverty reduction, as has been repeatedly shown by recent research findings[1].

Working with his peers in USAID's Center for Development Information and Evaluation (CDIE), USAID economist James Fox found:

> …an efficient capital market is an important ingredient of a successful development strategy. Though the effects of strengthening of capital markets on poorer strata of society are indirect and long term, they also have important consequences in generating increased investment and creating increased productive employment…
>
> …USAID has been successful in promoting [securities] market development. The general approach promoted by USAID - emphasizing the strengthening of the government regulatory institutions --- is sound and USAID has been able to contract capable expertise to carry out such projects[2]…

The Fox report dealt with only a half dozen capital market reform and development projects USAID staff designed and implemented to improve efficiency in the capital markets of client nations. The present report looks beyond capital markets to the broader financial sector, and surveys over 750 such projects USAID staff have initiated over the past decade. This survey of the larger universe confirms Fox's conclusion about USAID's general approach to capital market reform, and applies it also to the broader realm of financial sector development. Unfortunately, it cannot confirm his conclusion about USAID success because, despite the magnitude of USAID programs, the Agency has subjected their results to only a few outside -- or inside -- evaluations.

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[1] *Gerard Caprio and Patrick Honohan, Finance for Growth: Policy Choices in a Volatile World, a World Bank Policy Research Report, The Oxford University Press, 2001. p. 1. For similar empirical findings, see also Nicola Cetorelli, "The Role of Financial Services in Economic Growth," Chicago Fed Letter, January 2002.*

[2] *James W. Fox, "Summary" in Efficient Capital Markets: A key to Development, Center for Development Information and Evaluation, USAID, November 2000, p. v.*

The challenge of institutional and policy change. There exist about 761 instances of USAID providing technical assistance (TA) to create or change financial sector policies and institutions in 87 countries at a cost of $1,209 million. USAID's staff have been helping host nations to develop stock exchanges, banks, pension funds, insurance companies, micro-finance, and other non-bank financial institutions that will hopefully, eventually serve their publics as well as do those of the United States and other developed nations. If this were simply a matter of photocopying a set of laws or delivering an organizational chart and a set of job descriptions, it presumably would have been done earlier.

The developing nations, the "emerging markets", offer numerous examples of failed institutional replications and of failed attempts to import laws that worked adequately in the developed economies of the consultants. Since every nation has its own peculiarities of law, customs, and other institutions, changing and adding to them require country tailoring, not simple transplants. Further, introducing appropriate policies, designing and passing legislation, designing, organizing, and staffing new institutions, training managers and staff, and establishing regulatory oversight and enforcement systems take time, a lot of time.

In short, the challenge to USAID's good intentions is monumental, and this may explain why completing 761 tasks may leave the job unfinished. This paper begins with an explanation of why USAID staff have devoted so much effort to improving financial sector efficiency. It goes on to report on the scope, character, and distribution among countries of those efforts.

III. USAID'S POVERTY RATIONALE FOR PROMOTING FINANCIAL SECTOR EFFICIENCY

Both of the quotations heading this paper noted that financial sector development contributes to poverty reduction. USAID is promoting financial sector efficiency as a necessary activity to produce sustained and broad poverty reduction. Poverty falls when production per capita and wages rise. The latter increases depend on improvements in technology, on additions to worker skills, and on additions to the physical capital they work with. Most importantly, these increases depend on someone combining these inputs with maximum or near maximum efficiency.

However, this sequence works only when financial markets and associated policies provide the means and the incentives so the decision makers, the self-employed and employers, from micro-enterprises to multinationals, direct potentially productive resources toward their most productive uses. Finally, USAID's objectives of rising wages and declining poverty ordinarily become visible only after employers become so numerous and expansive that, in their competition for labor, they bid wages up persistently as has happened in Taiwan, South Korea, and Hong Kong - and in the United States since 1788.

Other consequences follow to satisfy other U.S. objectives. Economic growth and poverty reduction expand markets buying from and selling to the United States, increase foreign investment opportunities, and add to a middle class, likely leading to support for democracy.

USAID's initial success with financial sector reform. USAID began when, in March 1961, President Kennedy asked Congress to consolidate America's foreign assistance activities under a single Agency. The Foreign Assistance Act of 1961 united the economic and technical assistance operations of the International Cooperation Agency, the loan activities of the Development Loan Fund, the local currency functions of the Export-Import Bank, and the agricultural surplus distribution activities of the Food for Peace program of the Department of Agriculture[3].

John Kennedy had previously warned that the United States "cannot scatter its assistance on each parched patch of misery and need…Successful foreign aid must be selective.[4]" As President, he directed USAID to concentrate its assistance on those countries practicing "self-help," meaning moving toward realistic foreign exchange rates, export diversification, making public enterprises self-financing, eliminating price controls and subsidies, reforming taxes, and fostering savings, invention, and enterprise[5].

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[3] *"A History of Foreign Assistance," on the USAID WEB site. See also on the USAID WEB site, "Brief Chronology and Highlights of the History of U.S. Foreign Assistance Activities."*

[4] *John F Kennedy, "A Democrat Looks at Foreign Policy," Foreign Affairs, October 1957, pp.53-54.*

[5] *Arthur M. Schlesinger, Jr., A Thousand Days, pp. 586-589.*

Since declassification in 1996, a formerly secret agreement between the governments of China (on Taiwan) and the United States has revealed that, in January 1961, with the approval of President Chiang Kai-shek, the Chinese government committed to a reform program perfectly matching President Kennedy's concept of "self-help" deserving foreign assistance. Before 1961, the Chinese army had owned and operated most of the institutions of the Taiwanese economy. It was a command economy. Then, U.S. officials and Chinese reformers persuaded the Chinese Government to undertake comprehensive reforms. USAID followed up with extensive technical assistance and with a Sino-American oversight committee of the highest ranking Chinese and American officials meeting monthly to assure that the reform program, with heavy emphasis on liberalizing financial markets, kept to the very specific timetable agreed upon[6].

In the letter of commitment to 19 broad areas of reform, U.S. officials were shown, in retrospect, to have been remarkably prescient:

> Both Mr. Dillon [then Under-Secretary of State, soon to be President Kennedy's Secretary of the Treasury] and Mr. Saccio [Deputy Director of the U.S. International Cooperation Administration] indicated to the Vice-President that, in their opinion, my country possesses the potential to accelerate her economic growth to such an extent that she will stand out as an example for other Asian countries to follow of what can be accomplished by a people determined to work out their problems of economic development[7].

The spectacularly successful results have been long apparent. But at the time, this vision was not a slam-dunk; for, in 1959, when Dillon and Saccio visited, Taiwan was an extremely poor country with per capita income of $1,500, barely double India's $720 and less than one-seventh the $11,230 of the United States. Taiwan's commitment to financial sector and other reforms lifted per capita income to $15,700 in 1999, eight times India's stagnant $1820 (whose leaders refused USAID's importunate 1960s efforts at reform) and almost 60 percent of the $27,330 pre capita income of the United States[8]. But the central

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[6] *Letter from K.Y. Yin, Vice Chair of the Council for U.S. Aid, to Wesley C. Haraldson, Taiwan Mission Director of the U.S. International Cooperation Administration, 19 Jan 60, and the attached document, "Accelerated Economic Growth Program: The Republic of China," mimeo.*

[7] *Ibid., p.1 of the letter.*

[8] *Angus Maddison, Development Centre Studies: The World Economy, A Millennial Perspective, The Organization for Economic Cooperation and Development, 2001, pp. 304 and 279. All the income figures are from purchasing power parity calculations in constant 1990 international dollars.*

role of USAID and U.S. Embassy staff in designing and implementing Taiwan's reforms was not well understood before document declassification in 1996 because the Chinese Government had insisted that the reform agreement be kept secret lest the army be seen as submitting to U.S. pressure.

USAID's recent program of technical assistance to improve financial-sector efficiency is an attempt to duplicate the Taiwanese, Korean and Indonesian USAID programs of the Kennedy years. The difference is that in 1961 USAID devoted far more mission labor and dollars toward achieving efficient financial markets. Another difference is that the World Bank was then doing nothing to change host government policies, and, at the time, the IMF confined its conditionality to balance-of-payments issues. USAID of the Kennedy years was the world's premier instrument of financial sector reform and development in poor countries.

IV. CONTRACTING AND MANAGING FINANCIAL SECTOR ASSISTANCE

IV.A. USAID's contracting methods

USAID staff in many countries are involved in helping local professionals and policy makers move their financial and capital markets to greater efficiency. But this report has no quantitative information about the magnitude of those activities when carried out directly between USAID staff and host country officials and institutions. This report deals only with the work of USAID contractors and partners in cooperative and inter-agency agreements.

USAID staff initiate financial sector policy and institutional reforms through both stand-alone contracts and under "umbrella contracts," most of which are arranged in Washington. The former are generally between a single mission and a contractor that commits to providing consultants as specified. The umbrellas are "indefinite quantity contracts" (IQCs) that assure the contractors, as members of one of up to 20 consortia of contractors (in the SEGIR IQCs, the number of consortia ranges between 4 and 7), an initial $10,000 to $50,000 of "earnest money," while providing the possibility of work up to some specified amount, sometimes over $100 million, for each consortium. Other Washington USAID offices and missions then "buy in" under the umbrella's particular areas of consulting work. An umbrella may have some core money that its manager may choose to spend on evaluations, lesson-sharing conferences, or other leadership initiatives. But most of the money spent under any umbrella contract is provided by the buy-ins.

In 1985, staff of the Office of Economic Analysis (EA) in the Program and Policy Coordination Bureau (PPC) arranged a Macroeconomic IQC, the first of the recent policy reform umbrellas. PPC/EA followed with a second and, later, a third Macroeconomics IQC and with two other policy reform programs: Consulting Assistance to Economic Reform (CAER), a consortium led by the Harvard Institute for Economic Development, and Institutional Reform and the Informal Sector (IRIS), a cooperative agreement with the University of Maryland. Over time, each of these initiatives devoted a growing portion of effort to financial sector work as they were passed thru several offices ending in the Office of Emerging Markets (EGAD/EM) in 1994.

IV.B. Leadership from the E&E Office of Financial Sector and Privatization

Following the dissolution of the USSR, Congress, in 1990, passed the Support for Eastern European Democracy Act (SEED) funding U.S. assistance to policy and institutional reform in the countries of central and eastern Europe. In 1992, Congress added the Freedom Support Act (FSA) to help the Soviet Union's successor states, the "newly independent states." In 1991, the office that is now Financial Sector and Privatization (FSP) in the Europe and Eurasia Bureau (E&E) negotiated two umbrellas: the Enterprise Restructuring and

Privatization Project for Central and Eastern Europe and the Privatization of Civilian and Defense Industries for work in the Newly Independent States. When followed by Omnibus II (an umbrella with 20 consortia), which had with an objective to assist financial sector and other reforms, the earlier pair became know singly as Omnibus I. In 1995, E&E added an umbrella to assist creation and strengthening of bank supervision agencies in countries in its region.

In the SEED and FSA Acts, Congress provided for a pass-through of foreign assistance money to Treasury's Office of Technical Assistance to provide TA to the nations released from Communist control. The money passes through the State Department's Office of the Coordinator for U.S. Assistance to Europe and Eurasia. Some goes directly from the Coordinator to Treasury. Some goes from the Coordinator to USAID and then to Treasury under clause 632a (of the Foreign Assistance Act) interagency agreement between USAID and the Department of Treasury. In 1994, E&E arranged a 632b interagency agreement with the Securities and Exchange Commission (SEC) to provide financial sector (specifically, securities market-related) TA to countries in their region[9]. Since 1994, both the SEC and Treasury have provided TA to countries outside E&E's provenance.

IV.C. Innovation from EGAT/EM: Introducing SEGIR

The office now designated EGAT/EM arranged successive umbrellas as Financial Sector Development Programs (FSDP I and FSDP II) running from 1988 to 1993, and from 1993 to 1998. In 1994, EM assumed its current organizational position and took over CAER and IRIS. CAER staff have produced oversight policy papers on financial sector reform and case studies of country and regional money and securities markets. But the CAER consortium's members have not provided TA to countries. IRIS staff, however, have continued delivering TA under their cooperative agreement.

EM also picked up Private Enterprise Development Support II (PEDS II) in 1994 from the expiring Bureau of Private Enterprise and added PEDS III in 1997. Both umbrellas covered a large number of scopes of work (SOW) assisting policy and institutional reform in financial markets[10]. In 1994, EM signed a cooperative agreement with the Financial Sector Volunteer Corps (FSVC) to

[9] *Under a 632a agreement, USAID gives over the money and all responsibility for its use and fiduciary care. Under a 632b agreement, the recipient decides use of the money but must report its actions to USAID which retains fiduciary responsibility.*

[10] *TFor example, Steve Radelet and Jeffrey Sachs, "The Onset of the East Asian Financial Crisis;" Steve Radelet and Jeffrey Sachs, "The Second Year of the Asian Financial Crisis;" Jeffrey Sachs, Clifford Zinnes, and Yair Eilat, "The Gains from Privatization in Transition Economies: Is 'Change in Ownership Enough?'" For more, see the CAER WEB site if it is still available.*

get help from senior executives taking short-term leaves from their jobs in the U.S. financial sector.

In the summer of 1997, EM introduced five IQC umbrellas under the rubric: Support for Economic Growth and Institutional Reform (SEGIR):

- Privatization component, begun June 1997,
- Legal and institutional reform component, (LIR) begun June 1997,
- Financial services component, begun January 1999,
- General business, trade, and investment component, (GBTI) September 1998 and
- Macro-economic policy and poverty reduction component, September 2000.

E&E had used a similar division in Omnibus II. But SEGIR's drafters intended that its terms be broad. As one consequence, SEGIR umbrellas authorized work over overlapping areas. For example, this paper reports 68 SOWs in financial sector reform under the Financial Sector component and 48 SOWs for financial sector reform scattered through the other four SEGIR components. SEGIR's Results Package provided for the five umbrellas and also authorized buy-ins for cooperative agreements (used with the FSVC) and grants that have been given under interagency agreements. Through the 5 SEGIRs, some $196 million of financial sector initiatives have been authorized. Though only one component was expressly designed for financial sector reform, that $196 million accounts for 61% of the total $320 million authorized between all 5 components. Also, $80 million, or 40%, of the financial sector work was implemented by one contractor (and its various consortia among several components): the Barents Group.

SEGIR has proved popular with USAID missions and with USAID staff in Washington. By September of 2001, EM had accepted 341 scopes of work, authorizing $512 million, under the five umbrellas. The consensus among USAID staff is, first, that SEGIR has worked very well in providing convenient and rapid access to a wide range of high quality professionals and, second, that EM should initiate a successor program of similar scope as soon as possible.

Each of SEGIR's first four umbrellas provided for a ceiling for each of its consortia, e.g., $60.8m (recently raised to $76m) for each of the six consortia in the Financial Services component and $85m for each of the six consortia in the General Trade, Business, and Investment component. In mid-2001, the Privatization component, after four years, had an average of 67% of each consortium's $32m still available; the Financial Services component, after three years, had a consortia average of 83% of each $60m still available; GBTI, after three years, had a 65% average; LIR, after three years, a 51% average of each consortium's $77 million still available for new authorizations. In several components' cases, after three years, some of the consortia approached their maximums while other consortia were little used. This suggests that the total ceilings envisaged by the designers will not be approached under the life of the umbrella contracts because some of the consortia are not popular.

In contrast, Macro-Economic Policy and Poverty Reduction, the last component begun, has a single ceiling of $75m for all consortia combined. If one or more of its four consortia proves not very popular, the full amount may still be utilized. (However, this may allow one contractor to dominate the entire IQC and limit competition.)

SEGIR was introduced with its designers feeling compelled to dissemble a top-down directive within the Agency that discouraged financial sector efforts. In 1993, the new Administrator used closed circuit TV to announce to USAID staff all over the world that from then on, financial sector policy reform and development would be left to the World Bank and the IMF. Dictated by Congress, E&E's political and institutional reform programs continued as did FSDP II which had become effective just before the new Administrator arrived. A deputy administrator under Atwood, actually tried to overturn several financial sector development programs, on the grounds that they would not have any effect on the livelihood and health of the poor. Some, such as the FIRE (Financial Institutions Reform and Expansion) program in India, escaped her axe. Despite the pressure to the contrary, SEGIR was initiated in 1997, with a conference focused on the narrow topic of providing financial services for the poor cited as the apparent central purpose of the umbrellas. Therefore, SEGIR's much broader agenda for policy and institutional reform for growth and poverty reduction was allowed to proceed.

IV.D. Other Recent Financial Sector Activities

In the middle 1990s, USAID management reviewed what a number of countries in Central and Eastern Europe (CEE) had accomplished with financial sector and other policy and institutional reforms. However, backsliding and failures to follow up with the next reform steps led Agency staff to initiate a new program.

In 2000, E&E created Partners for Financial Stability (PFS) to work in eight "post-presence countries[11]" that had been "graduated" from most USAID programs. E&E did this by signing cooperative agreements with the East-West Management Institute (EWMI) and the Financial Sector Volunteer Corps (FSVC), signing a Section 632b interagency agreement with the U.S. Securities and Exchange Commission, and a Section 632a interagency agreement with the

[11] *Five countries in central Europe, the Czech Republic, Hungary, Poland, Slovakia, Slovenia, and three Baltic countries, Estonia, Latvia, and Lithuania.*

U.S. Treasury. Since the agreements, the FSVC has been taking on two or three tasks each month. PFS was created as a means for USAID to match funding with other not-for-profit organizations and thereby to induce them to conduct financial sector work in post-presence countries and to help continue the reforms initiated in the 1990s. EWMI was contracted as the nominal leader, matching USAID funding by 50%, with funds coming form the Soros Foundation. FSVC matches funds with the labor value of its private sector experts. SEC and Treasury have been doing a considerable amount of work, though since they operate under inter-agency agreements, they are not obligated to coordinate with the other "partners." Treasury hires professionals, sometimes for long-term efforts, from the same pool the IQC contractors use, while the SEC uses its own people on short-term assignments.

Prior to the reorganization of USAID, E&E hoped to introduce a successor program to PFS. "The Alliance for Financial Stability for Central and Eastern Europe and the Baltics" was intended to help prepare those countries for accession to the European Union and provide them with means to harmonize their financial systems with those of the EU, United States and the international financial community. However, at the time of this reports, cutbacks in the E&E Bureau had forced the initiative to be curtailed into a modification and extension of the existing PFS program. The redesign hopes to encourage the existing participants to adopt the goals of the AFS program, within the existing engagement.

In 2000, E&E arranged a 632b interagency agreement with the Federal Deposit Insurance Corporation (FDIC). It has proved popular, so much so that in several cases when E&E staff have been judged too slow in responding to a TA request, the country's U.S. Ambassador has called the USAID Administrator or the Secretary of the Treasury to leverage increased speed.

In addition to paying for TA for policy and institutional reform in the financial sector, USAID has been injecting U.S. taxpayers' money directly into host financial sectors through loan guarantees, grants for on-lending, and grants to "enterprise funds." For decades, USAID guaranteed housing loans, especially in Latin America, the Caribbean, and Asia. In 1998, Congress authorized a Development Credit Authority that guarantees loans from financial institutions in developing countries, encouraging them to initiate credit to microentrepreneurs, small/medium enterprises and others who typically are excluded from the resources available in the formal financial sector.

[12] *Czech-Slovak, 1991; Bulgarian,1991; Russian-American, RAEF, 1993; Fund for Large Enterprise Restructuring, FLER, 1994; U.S. Russia Investment Fund, 1995 by merging RAEF and FLER; Baltic, 1994; Romanian, 1994; Central Asian, 1994; Western Newly Independent States, 1994.*

For years, USAID has made grants to lending institutions for on-lending programs, mostly to micro-finance institution, but some reaching small and medium enterprises. In 1990, USAID granted funds to a Polish and to a Hungarian Enterprise Fund to take financial positions in private enterprises. Grants were then made to eight other enterprise funds in the E&E region[12]. The last fund began in Albania in 1995 at the same time as a grant was made to initiate a fund for South Africa[13].

All of these financial injections carry with them professional expertise that contributes to the evolution of recipient financial markets. But we have no way of estimating the portion of those flows (some $800 million to the Enterprise Funds, some $900 million for on-lending, some $250 million for credit guarantees and other vehicles during the years 1991-2001) that was a contribution to institutional and policy reform. So we have tried to exclude their numbers from our tables. We should note that all of these programs provide subsidies that permit recipients to charge lower prices on loans than unsubsidized competitors would have to charge. Therefore, these programs may be inhibiting the growth of competing private institutions. This possibility is just one of the many areas where USAID policy might benefit from evaluation.

IV.E. Activity Management by E&E's Office of Financial Sector and Privatization (FSP)

The FSP office of E&E has, to a great extent, managed its financial sector reform activities from Washington. The office came into existence following the SEED Act and was patterned after the World Bank's system. Thus, FSP was allowed a large staff of technical specialists (including 25-30 professional services contracts (PSC) based in Washington with a large travel budget. The USAID missions in the countries of the former Soviet Empire were then mostly staffed with administrative officers. The Washington professionals each specialized in a particular subject area and a particular set of countries. He or she remained in almost daily contact with Mission staff and host government professionals and policy makers. On two to four-week temporary duty assignments (TDYs), the Washington professionals met with counterparts and worked with mission staff to design desired SOWs and choose appropriate implementing contractors from under an umbrella or through a mission stand-alone contract. From Washington, the FSP professionals maintain oversight over implementation by contractors. Begun under the Omnibus contracts, these practices have continued with buy-ins to SEGIR umbrellas.

[13] *James W. Fox, The Venture capital Mirage: Assessing USAID Experience with Equity investment," USAID Center for Development Information and Evaluation, August 1996 evaluates early experience with these funds. A second evaluation, "Enterprise Funds: A New Development Tool?," is now circulating for clearance inside USAID.*

In recent years, remaining E&E missions have been adding technical staff as direct hires or PSCs. But the FSP professionals have continued to use TDYs to assist with financial sector reform initiatives, now working with mission technicians as peers.

IV.F. The Contrasting Present Role of EGAT's Office of Emerging Markets

In contrast with E&E's persistent technical involvement in every stage of the design and implementation of financial sector reforms, the staff of EGAT/EM have had a diminishing role in determining the content of the SOWs approved under SEGIR umbrellas. This is ironic in that the Global Bureau (now EGAT) was created to gather together the Agency's technical experts where, through sharing information and work, they could become more knowledgeable and useful to the missions.

With seven economists and four private sector officers in 1994, EM's staffing did permit extensive involvement in shaping the content of the SOWs of buy-ins into the FSDP I and II, PEDS II and III, and CAER contracts. But sequential staff reductions drove EM to resort to using one of its two remaining economists as an administrative project officer responsible for little more than assuring that SOWs satisfy the contracting requirements of their intended umbrellas.

By September 2001, EM's project managers had received some 340 SOWs for SEGIR inclusion. Presumably, they have been drafted by somewhere between 200 and 300 authors. Without the ability of EM's project officers to play a large role in determining the content of these documents, they vary, to a careful reader, widely in quality. Most are good, giving relevant background, suggesting means, and prescribing desired outcomes. But, as the contractors complain, some SOWs are far over-specific in seeking to prescribe exactly how the work is to be performed and what the results are to be. These leave little room for the implementing contractors' professionals to deal with the inevitable unexpected and unforeseeable problems of implementation - which problems, nevertheless, must be overcome. Other SOWs are too brief to give clear guidance to the contractor. Some simply raise the question, "Just what do the authors expect the contractors to do?"

Simultaneously with the staff reductions, funding cutbacks and a change in Agency policy eliminated core money for evaluations of work done under SEGIR buy-ins. No mid-term reviews have been conducted of any SEGIR umbrella, and no final evaluations are planned (nor were any produced for either FSDP I or II). No evaluations have been done nor are any planned for any tasks performed under any SEGIR SOW. Further, except for the four evaluations summarized by Fox in the piece on USAID's capital markets experience (from which come the opening paragraphs of this report), no evaluations have been done of the work performed under the two Omnibus umbrellas.

Until recently, the Agency supported conferences every third year, from 1985 through 1997, in which USAID economists and private sector officers would draw lessons and share experiences from financial sector and other USAID reform experiences. But no such conference has been held since 1997, and none is planned. So at least from 1997 through 2001, hundreds of SOWs have been implemented without any being subjected to an outside evaluation of their consequences and without an organized exchange among USAID's scattered professionals. Although occasional conferences do take place, on specific issues, they seldom accomplish the desired result of Agency-wide knowledge sharing. This is because they are generally sponsored by a particular contractor (although funded by USAID) with a specific agenda, who often seeks to exclude other knowledgeable contractors and use the conferences for private marketing to USAID staff.

V. USAID's FINANCIAL SECTOR REFORM ACTIVITIES, 1988-2001

V. A. Total: Dollars and Tasks by Regions, Income Levels, and Financial Stages

USAID staff have directed technical assistance into a great variety of activities intended to increase the efficiency of financial sectors in host countries. Appendix II, provides some details about each of the 402 buy-ins to EM umbrellas and the 359 mission and USAID/DC office stand-alones we have identified as efforts to improve financial sector efficiency. In Appendix II, the activities are grouped by USAID bureau, country and date in which the activity took place. Being the main repository for data of this study, Appendix II is the basis of the other tables described herein. Appendix II is also available electronically, and can be sorted and searched in a variety of ways. Methods for doing so are more thoroughly discussed in the introduction to the Appendices.

We have made a best effort to identify all of the USAID activities providing professional assistance to improve financial market efficiency; but, given the general state of disarray of USAID's files, we fear that our data are only as good as the information we have been given. We have expended considerable effort to uncover as many programs as possible, and gather as much information as possible about those programs, but the quality of information available often fluctuates from one program to another[14]. Also, we attempted to separate direct interventions by USAID in an economy (on-lending, credit guarantees, Enterprise Funds, etc.), and in a number of cases we determined that a program contained both technical assistance and direct intervention but we were unable to find the exact amount of each. In those situations, to preserve the relative veracity of our technical assistance data, we were forced to place such programs in the "Direct Interventions" table.

Our tables are based on program data from the year 1988 to 2001. 1988 was chosen as a start date because that was the first year of project authorizations under the FSDP (Financial Sector Development Program), the early IQC mechanism assembled by the office that is now EGAT/EM.

[14] *Our DTT team gathered information from several bureaus, from project documents residing in CDIE, as well as directly from a wide number of USAID contractors. We also culled a significant amount of data from an earlier stock-taking effort conducted in 1998 by the Office of Emerging Markets. In certain situations, such as with regards to the Omnibus contracts where we had particular difficulty finding centralized and organized reporting, we were forced to rely almost entirely on this existing data set.*

Table 1: Relative Expenditures (Authorized) in Financial Sector TA Activities by Region (1988 - Present)

	Program Expenditure		Countries		Projects/TOs	
	$ Amount	%Total $	# of Countries	% of Countries	# of Tasks	% of Tasks
AFR	118,527	10%	26	30%	140	18%
ANE	261,656	22%	17	20%	189	25%
E&E	705,204	58%	27	31%	272	36%
LAC	93,991	8%	17	20%	92	12%
Global	29,824	2%	-	-	68	9%
Total	1,209,203	100%	87	100%	761	100%

* Amounts are in $1,000s

Average $ per Country	13,899
Average $ per Year	86,372
Average $ per Project/TO	1,589

Table 1 (above) shows a summary of our results: $1,209 million authorized since 1988 by USAID staff for technical assistance to improve financial sector efficiency in 87 countries. Tasks range in size from one-day seminars conducted by FSVC volunteers to $61 million for Ukraine's broad, multi-sector Economic Restructuring Program.

Table 1 also shows the division of this money and of these tasks among the four USAID regions, and it shows the number of countries helped in each region. Additionally, Table 1 shows the percentage distribution of money, of tasks, and of countries among the four regions. Well over half the money went to 27 countries in the E&E region, over a fifth to Asia and the Near East, 10% to Africa and 8% to Latin America.

Dividing $1,209,000,000 by 761 tasks, the average program size was $1,589,000. The percent of total money and the percent of total tasks were close to the same for Asia Near East (ANE) indicating that the average per ANE project was about equal to the over-all average. But, the percentage of total tasks was some 50% larger than the percent of total money for Africa and for Latin America Caribbean (LAC), indicating that the individual tasks averaged below $1,589,000 in African and LAC countries. The opposite was true for Europe and Eurasia indicating the average task in these regions was considerable larger there than the overall average.

For the 14 inclusive years, 1988-2001, the average yearly new program authorization was $86,371,000. During the first three years however, total spending never exceeded $18 million, so the average spending for the next 11 years was considerably higher. Table 7 (discussed later) will show that the dollar amount for total annual spending differed greatly year to year.

Table 2 (next page) divides financial sector reform activities between the 402 under buy-ins to EM-facilitated umbrellas authorizing contracts for $248 million and the 359 under other mission and USAID/DC offices authorizing $960 million.

Table 2: EM Task-orders versus other USAID Programs(1988 - Present)

	EM IQC Task Orders			Other USAID FS Programs			
	# of TOs	$ Amount	%Reg'l Total$	# of TOs	$ Amount	%Reg'l Total$	Reg'l Total
AFR	97	30,270	26%	43	88,257	74%	118,527
ANE	126	51,471	20%	63	210,185	80%	261,656
E&E	84	138,933	20%	188	566,271	80%	705,204
LAC	44	23,024	24%	48	70,967	76%	93,991
Global	51	5,018	17%	17	24,806	83%	29,824
Total	402	248,717	21%	359	960,486	79%	1,209,203

* Amounts are in $1,000s

Average $ Size of EM Task Order	619
Average $ Size of Other USAID Contract	2,675
Average $ Size of All Contracts	1,589
Average yearly new project authorization (EM)	17,765.47
Average yearly new project authorization (Other USAID)	68,606.15
Average yearly new project authorization (All Contracts)	86,371.62

Table 2 also shows this same division of activities and dollars between EM and other USAID programs within each USAID region. In each region, some 20 % of the money spent paid for buy-ins to EM vehicles. However, the average size of activities going through EM was only $619,000, contrasting with an average of $2,675,000 for activities authorized by other USAID offices. A list of the EM vehicles authorized since 1988 accompanies this document in Appendix I.

Table 3 groups tasks by the World Bank's four country categories based on per-

Table 3: USAID FS Programs by Income Level (1988 - Present)

Income Level	Program Expenditure		Countries		Projects/TOs	
	$ Amount	%Total $	# of Countries	% of Countries	# of Tasks	% of Tasks
1	456,439	38%	39	45%	256	34%
2	558,937	46%	33	38%	343	45%
3	126,618	10%	11	13%	87	11%
4	1,360	0%	3	3%	4	1%
**	36,025	3%	1	1%	3	0%
Global	29,824	2%	0	0%	68	9%
Total	1,209,203	100%	87	100%	761	100%

* Amounts are in $1,000s

Note: AFR-wide projects included in income Level 1
Note: ANE-wide, E&E-wide, LAC-wide projects included in income Level 2

Average size of income Level 1 Project:	1,783
Average size of income Level 2 Project:	1,630
Average size of income Level 3 Project:	1,455
Average size of income Level 4 Project:	340
Average size of ** Project:	12,008
Average size of Global Project:	439

Level	GDP per Capita
1	$760 or less
2	$761 - 3,030
3	$3,031 - 9,360
4	more than $9,360

** Refers to Kosovo, which lacks GDP info.

capita income calculated by the World Bank Atlas method. In 1998, the per-capita income categories were: low income, below $761; lower middle-income, between $761 and $3,030, inclusive; upper middle-income, between $3,031 and $9,360, inclusive; and upper income, above $9,360[15]. The table shows the number and percentage of assisted countries in each income category and the number and percent of tasks initiated and the amount and percent of assistance money going to the countries in each income category. Only 38% of the money went to the 45% of countries classed as low income while 46% of funds went to the 38% of the countries classed as lower middle income. However, number of countries tells nothing about numbers of peoples in them; (India is one of the 39 low income countries) so the principal point of this table is that 84% of the money went to countries in the low and lower-middle-income categories. Perhaps surprisingly, $1,360,000 went, in relatively small tasks, to three upper income countries, the Bahamas, Slovenia, and Portugal.

For Table 4, we have classified countries by "stage of financial sector development." This is necessarily subjective and will have meaning shaped by the background each reader brings to our assumptions. Our single criterion is "(total bank and near-bank credit going to the private sector) divided by (GDP), both numbers for 1998. We chose this because it appears to us to be the favored criterion of researchers[16]. We offer five categories ranging from : "least developed" with 10% or less of bank credit to the private sector "most developed," with 45.1% or more to the private sector "intermediate," between 20.1 and 30.2% to the private sector, and the other two categories filling in the gaps. The last two columns of the Table show the number and percentage of the 86 countries in each of the five categories.

Table 4: Program Allocation by Financial Sector Development Level (1988 - 2001)

FS Development Level	$ Amount	%Total $	# of TOs	% of TOs	# of Countries	% of Countries
1	487,594	40%	183	24%	31	36%
2	214,701	18%	132	17%	15	17%
3	217,835	18%	133	17%	13	15%
4	81,996	7%	98	13%	11	13%
5	177,252	15%	147	19%	17	20%
Global	29,824	2%	68	9%	0	0%
Total	1,209,203	100%	761	100%	87	100%

[15] *World Development Report 2001, the World Bank*

[16] *Caprio and Honohan, op.cit.; Cetorelli, op. cit.; and, especially, Ross Levine, Norman Loayza, and Thorsten Beck, "Financial Intermediation and Growth," Journal of Monetary Economics," 46(1): 31-77.*

Table 4 shows the dollar amounts and the percentages of the dollar total of USAID financial sector reform money going to countries in each of the five categories. On this criterion, 24% of the undertakings but 40% of the money were for countries in the least developed financial markets - indicating that these tasks averaged relatively large financing. Fourteen percent of the undertakings and 17% of the money were for undertakings in the second-lowest level of financial market development and 21% of the tasks and 19% of the money were for activities in the middle category. Thirteen percent of the tasks but only seven percent of the financing were for activities in the second highest category and 19% of the undertakings but only 15% of the assistance money were for activities in the 17 most advanced financial markets-indicating that these tasks averaged relatively small financing. Additional information about the Financial Sector Development ranking, illustrative USAID countries' rankings accompanies Table 4 in Appendix I.

V.B. Division of USAID Assistance Among Financial Sector Sub-Sectors

We bring some order out of the great variety of financial sector assistance by distinguishing among six financial sector sub-sectors: commercial banking, securities and commodity futures'markets, pensions and insurance companies together, housing finance, micro-finance (and agricultural and small and medium enterprise (SME) lenders), and other nonblank financial institutions (NBFIs), e.g., credit unions and savings and mortgage banks. Table 5 (below) shows how the $1,209 million in financial sector assistance was divided among

Table 5: Program Allocation by Sector and FS Development Level (1988 - Present)

Development Level	Commercial Banking				Securities & Commodities				Pensions & Insurance				Housing Finance			
	$	$%**	#	#%**	$	$%**	#	#%**	$	$%**	#	#%**	$	$%**	#	#%**
1	126,121	26%	56	31%	80,230	16%	41	22%	4,775	1%	4	2%	33,655	7%	8	4%
2	29,268	14%	43	33%	69,772	32%	31	23%	8,021	4%	5	4%	5,000	2%	2	2%
3	58,452	27%	27	20%	60,330	28%	33	25%	14,493	7%	7	5%	26,818	12%	9	7%
4	8,069	10%	16	16%	2,771	3%	22	22%	3,684	4%	7	7%	10,272	13%	4	4%
5	14,930	8%	42	29%	56,739	32%	40	27%	5,531	3%	8	5%	2,393	1%	2	1%
Global	539	2%	7	10%	587	2%	4	6%	715	2%	5	7%	3,083	10%	6	9%
Total	*237,381*	*20%*	*191*	*25%*	*270,430*	*22%*	*171*	*22%*	*37,219*	*3%*	*36*	*5%*	*81,221*	*7%*	*31*	*4%*

* Amounts are in $1,000s ** Percentage of Level Total

Development Level	Micro, Rural, SME Finance				Other NBFIs				Multi-Sector				Total			
	$	$%**	#	#%**	$	$%**	#	#%**	$	$%**	#	#%**	$	$%***	#	#%***
1	38,112	8%	12	7%	24,184	5%	18	10%	180,517	37%	44	24%	487,594	40%	183	24%
2	9,707	5%	7	5%	32,002	15%	22	17%	60,931	28%	22	17%	214,701	18%	132	17%
3	10,210	5%	15	11%	16,509	8%	17	13%	31,023	14%	25	19%	217,835	18%	133	17%
4	21,082	26%	23	23%	22,824	28%	12	12%	13,293	16%	14	14%	81,996	7%	98	13%
5	28,351	16%	17	12%	14,977	8%	17	12%	54,331	31%	21	14%	177,252	15%	147	19%
Global	10,274	34%	13	19%	10,758	36%	9	13%	3,869	13%	24	35%	29,824	2%	68	9%
Total	*117,737*	10%	*87*	11%	*121,254*	10%	*95*	12%	*343,962*	28%	*150*	20%	*1,209,203*	100%	*761*	*100%*

* Amounts are in $1,000s ** Percentage of Level Total *** Percent of Overall Total

these five sub-sectors, including a sixth category, "Multi-Sector." The Multi-Sector entries are for activities in two or more of the five sub-sectors (most often banking and securities markets) that could not be divided between or among their particular sub-sections.

The bottom row of Table 5 shows the percent of the total dollars going to each sub-sector and to the Multi-Sector category. If the Multi-Sector total of $344 million is subtracted from the $1,209 million total, the $508 million to banks and securities markets is 58% of the residual $865 million. Further, since much of the $344 million Multi-Sector money went to banking and to securities markets, their combined share of the total has exceeded 60%.

Table 5 further shows how the tasks and funding in each sub-sector were divided among the development level categories. The outstanding feature of this division is that over half of the banking funding and over half of the Multi-Sector funding (much for banking and securities market reforms) were for countries in the least developed financial markets. A great many USAID staff seem to have agreed that banking reform, as well as securities market reform, are areas where USAID contractors have been and can be especially effective.

Funding for pension and insurance reform concentrated in countries in the middle stage of financial sector development. As expected, funding for reforms and strengthening of micro-finance institutions, agricultural credit institutions, and financial institutions lending to SMEs went most heavily to countries in the lowest stage of financial sector reform. But, surprisingly, the next largest amount went to countries in the most advanced stage of financial sector development.

Table 6 is clearly the most complex of all the tables in this report. It shows the division of funding and of tasks among sub-sectors within each USAID region. It becomes complex by showing the dollar amount of funding in each cell as a percent of three different totals.

Table 6: Aggregate Program Values and Weightings by Sector and Region (1988 - 2001)

		Commercial Banking	Securities & Commodities	Pensions & Insurance	Housing Finance	Micro, Rural, SME Finance	Other NBFIs	Multi-Sector	Regional Total
AFR	$ Amount	10,489	5,423	-	4,149	36,843	49,350	12,273	118,527
	# of TOs	37	26	-	3	19	38	17	140
	% Regional Total $	9%	5%	0%	4%	31%	42%	10%	
	% Intervention Total $	4%	2%	0%	5%	31%	41%	4%	
	% AID Total $	1%	0%	0%	0%	3%	4%	1%	
ANE	$ Amount	48,581	100,978	4,584	562	30,790	8,468	67,692	261,656
	# of TOs	38	64	11	2	26	14	34	189
	% Regional Total $	19%	39%	2%	0%	12%	3%	26%	
	% Intervention Total $	20%	37%	12%	1%	26%	7%	20%	
	% AID Total $	4%	8%	0%	0%	3%	1%	6%	
E&E	$ Amount	176,531	162,824	27,044	64,979	7,000	17,739	249,086	705,204
	# of TOs	97	63	14	18	2	15	63	272
	% Regional Total $	25%	23%	4%	9%	1%	3%	35%	
	% Intervention Total $	74%	60%	73%	80%	6%	15%	72%	
	% AID Total $	15%	13%	2%	5%	1%	1%	21%	
LAC	$ Amount	1,241	617	4,875	8,448	32,829	34,939	11,042	93,991
	# of TOs	12	14	6	2	27	19	12	92
	% Regional Total $	1%	1%	5%	9%	35%	37%	12%	
	% Intervention Total $	1%	0%	13%	10%	28%	29%	3%	
	% AID Total $	0%	0%	0%	1%	3%	3%	1%	
Global	$ Amount	539	587	715	3,083	10,274	10,758	3,869	29,825
	# of TOs	7	4	5	6	13	9	24	68
	% Regional Total $	2%	2%	2%	10%	34%	36%	13%	
	% Intervention Total $	0%	0%	2%	4%	9%	9%	1%	
	% AID Total $	0%	0%	0%	0%	1%	1%	0%	
Total	**$ Amount**	**237,381**	**270,429**	**37,219**	**81,221**	**117,736**	**121,254**	**343,963**	1,209,203
	% AID FS Total $	**20%**	**22%**	**3%**	**7%**	**10%**	**10%**	**28%**	**100%**
	# of TOs	**191**	**171**	**36**	**31**	**87**	**95**	**150**	**761**
	% AID FS Total TOs	**25%**	**22%**	**5%**	**4%**	**11%**	**12%**	**20%**	**100%**
	Average TO $ Value	**1,243**	**1,581**	**1,034**	**2,620**	**1,353**	**1,276**	**2,293**	**1,589**

* Amounts are in $1,000s

To explain: the three percentage figures in each cell are to be read down, in turn, horizontally, then vertically, then diagonally. For example, the AFR cell for Commercial Banking shows that; its $10,489,000 funding was 5% of AFR's total $118,527,000 funding, 2% of the $237,381,000 total USAID funding for Commercial Banking, and 1% of the $1,209,203,000 total USAID funding for financial sector reform, 1988-2001.

In the E&E region, 48% of funding went to banking and securities markets, while only 4% was allocated to the 2 sub-sectors: Micro, Rural, and SME Finance and Other NBFIs.

In ANE, 58% of funding was for the banking and securities sub-sectors and 26 % for the Multi-Sector category. E&E also devoted 35% of its funding to the Multi-Sector category. LAC devoted only 2% of funding to banking and securities markets but 72 percent to the Micro, Rural, and SME sub-sector and the Other NBFI sub-sector. Global activities also concentrated 70% of funding on the latter two sub-sectors.

Table 7: New Project Authorization by Year and Sector (1988 - 2001

	TOs	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Commercial Banking	$	23	597	190	24,419	2,508	4,236	7,546	11,467	49,312	27,761	14,773	27,633	43,832	23,084
	#	2	14	1	13	8	7	14	23	18	14	21	16	28	12
	%($)	1%	3%	2%	53%	5%	8%	15%	12%	14%	21%	9%	39%	42%	31%
Securities & Commodities	$	-	1,311	435	376	12,099	27,400	18,949	34,623	49,531	37,218	53,350	4,683	14,189	16,265
	#	-	14	6	8	12	13	14	16	30	27	14	6	5	6
	%($)	0%	7%	5%	1%	22%	51%	37%	35%	15%	28%	34%	7%	14%	22%
Pensions & Insurance	$	-	-	15	8,474	1,524	26	139	2,257	8,661	3,146	2,669	4,532	2,569	3,207
	#	-	-	1	7	1	1	2	3	2	5	5	5	1	3
	%($)	0%	0%	0%	18%	3%	0%	0%	2%	3%	2%	2%	6%	2%	4%
Housing Finance	$	-	-	-	68	13,818	66	12,390	1,978	22,496	9,833	3,537	2,735	-	14,300
	#	-	-	-	1	4	4	2	2	9	3	3	2	-	1
	%($)	0%	0%	0%	0%	25%	0%	24%	2%	7%	8%	2%	4%	0%	19%
Micro, Rural, SME Finance	$	-	300	64	18	5,289	143	2,402	15,775	14,946	20,014	15,561	4,104	27,046	12,075
	#	-	1	1	1	3	2	4	9	19	17	9	6	8	7
	%($)	0%	2%	1%	0%	10%	0%	5%	16%	4%	15%	10%	6%	26%	16%
Other NBFIs	$	3,737	15,103	762	9,155	13,108	6,752	8,368	14,943	20,518	9,448	8,014	3,287	7,965	93
	#	7	10	6	7	7	3	10	15	5	6	6	3	9	1
	%($)	96%	85%	8%	20%	24%	13%	16%	15%	6%	7%	5%	5%	8%	0%
Multi-Sector	$	114	522	7,516	3,360	5,898	14,933	1,294	16,582	174,743	23,521	58,159	23,970	8,250	5,100
	#	5	10	13	7	6	14	6	12	18	19	17	11	8	4
	%($)	3%	3%	84%	7%	11%	28%	3%	17%	51%	18%	37%	34%	8%	7%
Total	$	3,874	17,832	8,982	45,870	54,244	53,557	51,088	97,625	340,208	130,941	156,064	70,943	103,851	74,124
	#	14	49	28	44	41	44	52	80	101	91	75	49	59	34

V. C. Changes Over Time in Funding and in The Division of Assistance Among Sub-sectors

Table 7 above shows the dollar amounts authorized each year in total and in each sub-sector. The total amount authorized rose to a peak of $340 million in 1996, dropped to $131 then $156 million in 1997 and 1998, then has tapered off since. However, 2001 data shows that annual financial sector funding, while considerably lower than the level of 1996, had increased by some $30 million over the decade since 1991.

Over the 14 years, 1988 thru 2001, the emphasis shifted from Other NBFIs in 1988-1990 to banking in 1991, housing finance and Other NBFIs in 1992, securities markets in 1993-95, large, multi-sector projects in the peak year, 1996, and in 1997-98, with a return to banking in 1999-2001. Housing finance had fallen over time and disappeared in 2000 only to be revived in 2001. After 1996, funding for Other NBFIs dropped off and has remained down.

V.D. Division Between TheRegulated and The Regulators in Each Sub-sector

USAID's ultimate objective when assisting financial sector reform is broadly-based growth and poverty reduction. That objective requires the creation of two different kinds of institutions:

Market Participants: The first set of institutions encompasses the market intermediaries that re-allocate financial savings towards more productive uses and thereby catalyze economic growth. Here, USAID seeks to increase the number, variety, and reach of financial sector intermediary institutions of all sizes, from those taking deposits and lending only a few dollars, or even a few cents[17], to

[17] *For a report on the extent to which the very poor, all over the world, often manage to save a few cents a week, see Rutherford, Stuart,* The Poor and Their Money*, Oxford University Press, New Delhi, 2000.*

those taking and lending millions. This set of institutions also covers stock exchanges, banks, pension funds, insurance companies, micro finance institutions, and the other nonbank financial institutions (such as credit unions and cooperative savings associations).

Market Regulators: The second set of institutions is needed to prevent potential market failures. These are the regulatory institutions intended to induce fiduciary responsibility, sustainability and competition among the institutions within each sub-sector. The regulators are created to instill concepts of fiduciary responsibility and due diligence in the management of the intermediaries, to get more loans repaid so lenders can lend again, to establish intermediary transparency and to prevent chicanery so buyers of securities and other savers will not be deprived of all or part of their savings through fraud or deception. This second set of institutions includes security and exchange commissions, on-site and off-site bank supervisors, and regulators of pension funds, insurance companies, micro-finance institutions, and other non-bank financial institutions.

Both: In many instances, USAID seeks to achieve comprehensive reform of a financial sector or a particular financial industry. To implement such reform, it is necessary to address both the market intermediaries as well as the market regulators. Rather than being a third set of institutions, the "Both" classification denotes programs where work was done on both ends of the spectrum.

Internal USAID:Not all of USAID's financial sector funding is proferred to recipient countries and their domestic institutions. In order for USAID to provide effective developmental guidance, its own staff of professionals must be kept up to date with financial sector development methodologies and innovations. To that end, USAID expends a relatively small portion of its programmatic authorization on internal training, conferences and other capacity building initiatives related to financial sector development.

Table 8 (below) shows the extent to which USAID's financial sector reform money was directed sometimes only to the regulated institutions, sometimes to the regulating institutions, and more often, to both in each sub-sector. The right hand column shows that 14% ($167,693,000) of the funding was for tasks involving only the regulatory institutions, 31% ($373,861,000) for tasks involving only the intermediary institutions, but 40% ($663,282,000) for tasks in which the contractors dealt with both the intermediaries and their regulators. These numbers are consistent with the quotation from James Fox on page one above about USAID emphasis on creating and strengthening regulatory institutions.

Table 8: Total Number of Projects by Realm and Type of Intervention (1988 - 2001)

		Evaluation, Assessment	Legislation	Regulation, Supervision	Enforcement	FS Institution Privatization	Institution Building	Asset Resolution	Transparency	Training, Conferences	Public Relations	*Sum of Projects by Intervention*	**Actual Total by Realm**
Market Regulator	Number	37	39	65	5	8	61	22	30	58	6	*331*	**136**
	Total $Amount	24,612	74,040	125,109	6,634	8,401	110,254	29,764	55,474	71,188	5,617	*511,093*	**167,693**
Market Participant	Number	119	7	12	0	5	178	2	52	132	15	*522*	**326**
	Total $Amount	31,532	25,416	31,754	-	3,052	331,261	1,139	80,616	248,704	26,815	*780,287*	**373,861**
Both	Number	114	61	73	8	20	154	10	43	100	26	*609*	**274**
	Total $Amount	67,571	342,266	402,230	84,562	120,154	623,173	63,979	188,635	355,450	176,427	*2,424,447*	**663,282**
Within USAID	Number	13	0	0	0	0	1	0	0	14	1	*29*	**25**
	Total $Amount	3,462	-	-	-	-	97	-	-	3,299	23	*6,882*	**4,367**
Total	Number	283	107	150	13	33	395	34	125	304	48	*1,492*	**761**
	Total $Amount	127,177	441,722	559,093	91,196	131,606	1,064,785	94,882	324,725	678,641	208,882	*3,722,708*	**1,209,203**
	% of Projects	37%	14%	20%	2%	4%	52%	4%	16%	40%	6%	*196%*	
	%of Total AID $ Amount	11%	37%	46%	8%	11%	88%	8%	27%	56%	17%	*308%*	

V.E. The kinds of Improvement Sought in Each Sub-sector

Table 8 introduces a new kind of classification of our data. Every USAID scope of work, whether under an umbrella or for a stand-alone contract, specifies the particular kinds of improvement sought. The circumstances facing each USAID drafter differ enormously from country to country and from time to time. These differences have produced great variety in the kinds of improvement sought by USAID staff. Confronting this diversity, we have tried to introduce enough simplification so readers can get their minds around USAID's total financial sector reform program without imposing so much simplification that the program's rich diversity is lost. In consequence, this has been a Procrustean process in which we gave up many feet while trying to save most of the heads as we assigned each task to one or more categories.

For this table, we have defined 10 areas in which USAID staff have tried to make changes that would move host nations' financial markets to greater efficiency. Of course, the variety of USAID-financed activities has been compressed within the 10 categories. The following phrases indicate the range of USAID activities within each of the 10 intervention types:

- ***Evaluation and Assessment:*** of institutions serving the public; of the regulatory institutions; of the legal, market, or social environment for new or additional reforms or for new market institutions or products; of USAID's financial sector programs.

- ***Legislation:*** drafting of entirely new legislation to support competitive and efficient financial markets; drafting of revisions to existing legislation; helping to organize local technicians and managers to do the drafting. Bankruptcy legislation and laws protecting minority stockholders are included in the financial sector, but general business law is not.

- ***Regulation and Supervision:*** help designing regulatory language; strengthening regulatory procedures, e.g., the many manuals prepared for off-site surveillance and on-site examinations of banks, all efforts to establish CAMEL (capital, assets, management, equity, liabilities) as providing the criteria for bank examinations.

- ***Enforcement***: not much has been done by USAID in this area. Some work has been done in designing enforcement procedures.

- ***Financial Institution Privatization:*** help preparing state-owned banks and other financial sector institutions for sale. We did not include as "financial sector" help preparing for auctions of non-financial sector SOEs or for their debt-reduction efforts.

- ***Institution Building:*** This is a broad category encompassing any type of work done to create or strengthen an institution. It includes help with institutional reorganization or with initial creation; with management organization and/or personnel policies; banking resolutions where the banks were preserved rather than dissolved or absorbed; help with check clearing and securities custodial and transfer activities; help also designing and marketing new financial products. We have not counted in the financial sector assistance to the Central Bank conducting open market operations or conducting other monetary policy activities.

- ***Asset Resolution:*** This category encompasses work conducted in deposit insurance, bad debts, and bankruptcy. Lumping these three categories together may seem odd; but in banking, the same institutions that provide deposit insurance (or that are intended to do so) are usually responsible for debt workouts and for disposition of bankrupt firms. Encompassed here is work done to help establish deposit insurance institutions; to salvage failed deposit insurance institutions; to resolve and work-out non-performing loans, liquidate assets of insolvent creditors, and to otherwise coordinate bankruptcy proceedings.

- ***Transparency:*** USAID has expended significant effort to improve the transparency of financial institutions through promoting increased accounting clarity, improved disclosure, and better corporate governance and accountability. This can include developing internal audit procedures, transforming accounting practices into International Accounting Standards (IAS), building self-regulating accounting or auditing organizations; helping establishing requirements for public disclosure or disclosure to minority stockholders of firms' financial conditions.

- ***Training/Conferences:*** Training has been a large component of many USAID programs, often accompanying Institution Building or other types of TA, and occasionally occurring as stand-alone training programs. Training can be for specific professional functions within a financial sector institution, such as risk analysis training in a bank, or for broader, financial sector-wide areas such as accounting reform or corporate governance. Related conferences for idea and best practice sharing also fall into this category.

- ***Public Relations/Education:*** USAID frequently complements technical assistance with a public relations or outreach campaign intended to educate the public about the goals of a certain reform, or how they might benefit from it. This effort can come in several forms, examples of which include publicity about the new reliability of reformed banks, how stock markets work, how companies can list on a stock exchange, the availability of credit to micro-enterprises, etc.

Many of the task orders issued by USAID obligated the contractor to work in several of the columns identified in Table 8. For example, a number of tasks asked for an evaluation of the need for (or the status of an existing) regulatory institution as well as for help drafting appropriate legislation, organizing the regulatory institution, drafting regulations, and training its staff. Such a TO was noted in five of the columns: "Evaluation," "Legislation," "Institution building," "Regulation," and "Training." Because of such multiple entries, the Table 8 column headed "Sum of Projects by Intervention" shows a bottom line total of 1,492, much larger than the 761 total number of tasks. This means that work intended under any project/TO fell into, on average, approximately 2 columns. Likewise, the "Sum of Projects by Intervention" column shows a dollar total of $3,722 million, much in excess of the actual $1,209 million total. This indicates that the projects whose TA fell into multiple columns received considerably more funding.

Particularly striking in Table 8 are the numbers in the first column showing that 37% of all the projects called for an evaluation of the conditions to be improved. While this report has emphasized the lack of evaluations of work done for USAID, this extensive effort to look before leaping indicates that the USAID staff have pushed to get the contractors to evaluate reform needs and local circumstances, presumably while considering similar situations in their own experience, before undertaking reform efforts.

Table 8 also shows 88% of financing was for tasks involving institution building with some 60% of that going to projects that worked with both the intermediary and the regulatory institutions together. In all the areas of reform, well over half the tasks involved work with both the intermediary and the regulatory institutions.

Table 9: FS Programs by Realm and Sector (1988 - 2001)

	Regulator			Participant			Both			Internal USAID			Total		
	$	#	%**	$	#	%**	$	#	%**	$	#	%**	$	#	%[t]
Commercial Banking	85,026	64	36%	64,226	85	27%	87,999	40	37%	129	2	0%	237,381	191	20%
Securities & Commodities	43,593	30	16%	66,779	52	25%	159,773	86	59%	285	3	0%	270,430	171	22%
Pensions & Insurance	5,124	6	14%	5,203	10	14%	26,571	19	71%	321	1	1%	37,219	36	3%
Housing Finance	-	-	0%	38,834	19	48%	42,387	12	52%	-	-	0%	81,221	31	7%
Micro, Rural, SME Finance	8,628	2	7%	69,999	63	59%	36,528	18	31%	2,582	4	2%	117,737	87	10%
Other NBFIs	1,317	4	1%	99,393	73	82%	20,423	16	17%	121	2	0%	121,254	95	10%
Multi-Sector	24,006	30	7%	29,426	24	9%	289,601	83	84%	929	13	0%	343,962	150	28%
Total[t]	167,693	136	14%	373,861	326	31%	663,282	274	55%	4,367	25	0%	1,209,203	761	100%

* Amounts are in $1,000s ** Percent of Sub-sector Total $ Amount [t] Percent of Total $ Amount

Table 9 (above) shows how USAID financial sector technical assistance breaks down among the realms (regulator versus regulated), by financial sub-sector. By looking at the right-most column in each realm, we can see that in all financial sub-sectors, save Micro/Rural/SME Finance and Other NBFIs, the greatest percentage of funding went to programs that addressed both the regulator and market intermediary simultaneously. It is noteworthy that, in the other NBFIs sector, some 82% of the funding, and the vast majority of task orders were directed to projects conducted exclusively within market participant institutions. The Commercial Banking sector stands out as the only sector to receive a greater percentage of funding for market regulators than market intermediaries (36% versus 27%).

V.F. Number of Times USAID Addressed Particular Sub-sector Rreform Areas

Table 10 (next page) again shows the interventions by intervention type but also by sub-sector. As with Table 8, many single tasks were recorded in two or more rows. So, once more, the total money and total number of task entries for each sub-sector are greatly in excess of the numbers without such double-counting.

Table 10: Program Allocation by Sector and Intervention Type (1988 - 2001)

	Commercial Banking			Securities & Commodities			Pensions & Insurance			Housing Finance			Micro, Rural, SME Finance			Other NBFIs			Multi-Sector			Total Instances per Intervention	
	$	#	%	$	#	%	$	#	%	$	#	%	$	#	%	$	#	%	$	#	%	$	#
Evaluation, Assessment	37,241	**65**	**34%**	27,411	**76**	**44%**	9,461	**18**	**50%**	4,610	**7**	**23%**	24,386	**35**	**40%**	9,406	**31**	**33%**	14,662	**51**	**34%**	127,177	**283**
Legislation	56,091	**18**	**9%**	124,352	**39**	**23%**	14,475	**6**	**17%**	20,200	**5**	**16%**	18,318	**6**	**7%**	15,239	**9**	**9%**	193,048	**24**	**16%**	441,722	**107**
Regulation, Supervision	134,752	**49**	**26%**	157,163	**49**	**29%**	17,861	**7**	**19%**	2,500	**1**	**3%**	33,107	**10**	**11%**	16,660	**11**	**12%**	197,050	**23**	**15%**	559,093	**150**
Enforcement	3,331	**2**	**1%**	33,689	**5**	**3%**	4,261	**2**	**6%**	-	**-**	**0%**	-	**-**	**0%**	-	**-**	**0%**	49,915	**4**	**3%**	91,196	**13**
FS Institution Privatization	16,833	**12**	**6%**	45,177	**7**	**4%**	7,948	**7**	**19%**	-	**-**	**0%**	507	**1**	**1%**	9,845	**2**	**2%**	51,295	**4**	**3%**	131,606	**33**
Institution Building	188,170	**80**	**42%**	237,627	**95**	**56%**	29,919	**15**	**42%**	80,795	**24**	**77%**	111,993	**58**	**67%**	114,743	**57**	**60%**	301,540	**65**	**43%**	1,064,785	**394**
Asset Resolution	47,533	**29**	**15%**	26	**1**	**1%**	-	-	**0%**	-	**-**	**0%**	-	**-**	**0%**	-	**-**	**0%**	47,324	**4**	**3%**	94,882	**34**
Transparency	71,349	**47**	**25%**	120,251	**28**	**16%**	5,938	**5**	**14%**	-	**-**	**0%**	25,606	**6**	**7%**	8,902	**8**	**8%**	92,679	**31**	**21%**	324,725	**125**
Training, Conferences	158,349	**93**	**49%**	152,873	**49**	**29%**	17,123	**13**	**36%**	7,684	**8**	**26%**	80,892	**32**	**37%**	95,492	**50**	**53%**	166,227	**59**	**39%**	678,641	**304**
Public Relations	35,541	**8**	**4%**	85,005	**16**	**9%**	9,443	**6**	**17%**	853	**1**	**3%**	8,332	**3**	**3%**	16,438	**7**	**7%**	53,270	**7**	**5%**	208,882	**48**
Totals	*749,191*	*403*	*211%*	*983,573*	*365*	*213%*	*116,428*	*79*	*219%*	*116,642*	*46*	*148%*	*303,141*	*151*	*174%*	*286,723*	*175*	*184%*	*1,167,010*	*272*	*181%*	*3,722,708*	*1,491*
Actual Totals by Sector	237,381	**191**	100%	270,429	**171**	100%	37,219	**36**	100%	81,221	**31**	100%	117,736	**87**	100%	121,254	**95**	100%	343,963	**150**	100%	1,209,203	**761**

* Amounts are in $1,000s

The right-hand column under each sub-sector is of special interest, especially under the evaluation assessment category. This column shows the adjacent number of task entries as a percent of total tasks in the sub-area. It shows in banking, for example, that 34% of all the banking-area tasks called for an evaluation. This calculation is similar or higher in all the sub-sectors except housing finance. In total, 37% of tasks incorporated an evaluation or assessment component. Incidentally, Pensions & Insurance stands out as the only sub-sector in which the number of tasks involving evaluations was more than the number of tasks involving institution building.

A look at the third column in each sub-sector (%) also shows that in every sub-sector 42% or more of the tasks involved institution building. In total, 52% of USAID's financial sector development work involved institution building. This column also shows that from 26 to 53% of the tasks involved training or conferences (far fewer than for training). In total, 40% of the tasks incorporated training in their agenda.

In addition to an across-the-board stress on evaluations, in banking, nearly 50% of the tasks included training, while 42% provided institution building; a quarter focused on transparency efforts; and a quarter sought regulatory reform. In securities markets, 56% of the tasks provided institution building, nearly 30% assisted regulatory supervision and training; and 23% sought legislative change. In pensions and insurance, the emphasis was on institution building, training, regulation, legislation, and public relations in that order. Institution building and training were stressed in the housing sub-sector. Micro-finance/rural/SME reform stressed institution building, training, and regulation as did the tasks directed at Other NBFIs.

Table 11: Average FS project Size over Time (1988 - 2001)

	TOs	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Commercial Banking	$	23	597	190	24,419	2,508	4,236	7,546	11,467	49,312	27,761	14,773	27,633	43,832	23,084
	#	2	14	1	13	8	7	14	23	18	14	21	16	28	12
	Avg Size	11	43	190	1,878	313	605	539	499	2,740	1,983	703	1,727	1,565	1,924
Securities & Commodities	$	-	1,311	435	376	12,099	27,400	18,949	34,623	49,531	37,218	53,350	4,683	14,189	16,265
	#	-	14	6	8	12	13	14	16	30	27	14	6	5	6
	Avg Size	-	94	73	47	1,008	2,108	1,354	2,164	1,651	1,378	3,811	780	2,838	2,711
Pensions & Insurance	$	-	-	15	8,474	1,524	26	139	2,257	8,661	3,146	2,669	4,532	2,569	3,207
	#	-	-	1	7	1	1	2	3	2	5	5	5	1	3
	Avg Size	-	-	15	1,211	1,524	26	69	752	4,331	629	534	906	2,569	1,069
Housing Finance	$	-	-	-	68	13,818	66	12,390	1,978	22,496	9,833	3,537	2,735	-	14,300
	#	-	-	-	1	4	4	2	2	9	3	3	2	-	1
	Avg Size	-	-	-	68	3,455	16	6,195	989	2,500	3,278	1,179	1,368	-	14,300
Micro, Rural, SME Finance	$	-	300	64	18	5,289	143	2,402	15,775	14,946	20,014	15,561	4,104	27,046	12,075
	#	-	1	1	1	3	2	4	9	19	17	9	6	8	7
	Avg Size	-	300	64	18	1,763	72	600	1,753	787	1,177	1,729	684	3,381	1,725
Other NBFIs	$	3,737	15,103	762	9,155	13,108	6,752	8,368	14,943	20,518	9,448	8,014	3,287	7,965	93
	#	7	10	6	7	7	3	10	15	5	6	6	3	9	1
	Avg Size	534	1,510	127	1,308	1,873	2,251	837	996	4,104	1,575	1,336	1,096	885	93
Multi-Sector	$	114	522	7,516	3,360	5,898	14,933	1,294	16,582	174,743	23,521	58,159	23,970	8,250	5,100
	#	5	10	13	7	6	14	6	12	18	19	17	11	8	4
	Avg Size	23	52	578	480	983	1,067	216	1,382	9,708	1,238	3,421	2,179	1,031	1,275
Total	$	3,874	17,832	8,982	45,870	54,244	53,557	51,088	97,625	340,208	130,941	156,064	70,943	103,851	74,124
	#	14	49	28	44	41	44	52	80	101	91	75	49	59	34
	Avg Size	277	364	321	1,042	1,323	1,217	982	1,220	3,368	1,439	2,081	1,448	1,760	2,180

* Amounts are in $1,000s

Table 11 (above) shows the composition of USAID financial sector development funding over the 14 years (1988-2001). This table also shows the average dollar size of projects in a specific financial sub-sector in each of the 14 years. In all, the average USAID financial sector development project received approximately $1,589 in authorized funds. On average, Housing Finance and Multi-Sector programs were significantly larger than the others. The smallest programs were in the Pensions & Insurance sector. It bears mentioning that, over time the average project size increased from $277 thousand in 1988 to nearly $2.2 million in 2001. The Other NBFIs and Pensions & Insurance sectors remained relatively consistent over the time period, though project size of Other NBFIs has dropped off in the last two years, while Pensions & Insurance has grown. Commercial Banking and Securities Markets projects have grown consistently in size, while the large, multi-sector programs peaked in 1996, and have decreased in size since then, though they are still formidable. Also, four of the 7 sub-sectors experienced apogees in 1996, lead by the Multi-Sector projects which averaged nearly $10 million each.

While USAID has addressed financial sector issues in a great variety of countries (nearly 90 countries in the past 14 years), much of that funding has been focused on a select group of countries. Within the Agency it is common knowledge that foreign assistance funding is often a product of diplomacy and affairs

Table 13: Top 25 Countries, Ranked by Authorized $ Amount of Technical Assistance Expenditures (1988 - 2001)

			$,000			
Rank	Country	TO #	Total $	% of FS$		
1	Ukraine	27	116,397	10%		
2	Russia	24	86,637	7%		
3	Poland	27	78,033	6%		
4	Jordan	15	54,236	4%		
5	Kazakhstan	11	45,941	4%	*Top 5 $*	
6	Egypt	23	40,542	3%	*381,244*	*32%*
7	Philippines	23	39,942	3%		
8	Bulgaria	14	37,960	3%		
9	Moldova	17	37,744	3%		
10	Bosnia	11	37,326	3%	*Top 10 $*	
11	Kosovo	3	36,025	3%	*574,758*	*48%*
12	Bangladesh	6	34,953	3%		
13	India	21	34,869	3%		
14	Romania	11	34,862	3%		
15	Uganda	17	32,706	3%		
16	West Bank/Gaza	17	29,276	2%		
17	Georgia	8	26,365	2%		
18	Kyrgyzstan	6	24,826	2%		
19	Nicaragua	7	20,717	2%		
20	Bolivia	12	18,206	2%		
21	Armenia	6	16,647	1%		
22	Madagascar	11	15,758	1%		
23	Uzbekistan	4	15,622	1%		
24	Honduras	16	11,829	1%		
25	Macedonia	8	11,828	1%	*Top 25 $*	
		345	939,247	78%	*939,247*	*78%*

Total USAID FS Program $	1,209,203
Projects	762

of state, and this holds true within the realm of financial sector development funding. Table 13 (above) shows the top 25 recipients of financial sector development funds since 1988. 25 countries received nearly 80% of the funding, with the top 5 receiving over 30%, and the top 10 receiving just under 50%. As we take a look at the top recipients we see a list of US diplomatic priorities over this time frame: Russia, the former Soviet Union and its former satellites dominate this group. Of those appearing in the top 25, and excluding the crisis countries of the Balkans, the former Soviet Union and its satellites received over 40% of the total financial sector funding. USAID also frequently directs its efforts at crisis regions, as is anticipated for Central Asia following September 11th, with a considerable focus on the Balkans during the second half of this time frame. Two countries, in particular, with diminutive economies (Kosovo and Bosnia) rank 10th and 11th on this list, with Macedonia ranking 25th. Another crisis area to recive considerable attention has been the Middle East, where USAID has been particularly generous to our allies in the region

(Jordan and Egypt) and has also expended considerable resources in the crisis hotbed itself, West Bank/Gaza. These three recipients have received over 10% of total USAID financial sector development assistance. Incidentally, the largest overall recipient of financial sector development funding has been the Ukraine, with 10% of total funds, followed closely by Russia and Poland, at 7% and 6% respectively. "The goal was to change their financial systems so totally, that they could never hope to revert to the socialist model," one USAID financial sector expert informed us.

V.G. Conclusions: Where Has USAID Been Successful?

Without extensive evaluations, we are ill equipped to judge what USAID and its contractors have been best at doing in financial sector reform and institutional building. Nevertheless, we hazard some tentative hypotheses based on the tables above and on our many interviews with USAID staff. USAID and its contractors seem to have been especially good at:

- providing advice on the creation, organization, and staffing (including training) of bank regulatory institutions;
- developing training programs that have been put on CDs for a) risk analysis for loan officers in commercial banks, b) international standards for accountants and auditors, and c) regulatory agency staff. These have been distributed (sometimes translated) for use in many countries;
- providing advice on the creation and staffing of stock exchanges that promote liquidity ("exit" for initial security holders) following privatization in central Europe and the newly independent states;
- creating software that new stock exchanges have been using to develop securities depositaries and clearance institutions;
- assisting the creation of micro-finance institutions and devising ways to expand their competence to take deposits and become self-sustaining;
- advising on creation of state, employer, and individual pension funds and on appropriate regulatory agencies; and

USAID is particularly effective in creating, building and further developing financial sector institutions (across the subsectors), especially when it employs an effective mix of pre-project assessment, hands-on, mentoring work in various functions at the target institution, and further strengthened by on-the-job and formal training.

VI. EGAT/EM'S FINANCIAL SECTOR REFORM ACTIVITIES, 1988-2001

This section reports on the 402 tasks implemented under the 13 IQCs and the IRIS cooperative agreement that were managed, at least in their final form, by the staff of EM. The 13 IQCs are listed in Office of Emerging Markets Vehicles Table 1, below.

VI.A. Totals: Dollars and Tasks by Regions, Income, and Financial Stages

First, some perspective on the scale of financial sector tasks under the five SEGIR umbrellas: most cost less than $3.5 million, many less than $1 million. Only

Table 1: Office of Emerging Markets Vehicles

Relative Expenditures (Authorized) in Financial Sector TA Activities by Region (1988 - 2001)

	Program Expenditure		Countries		Projects/TOs	
	$ Amount	%Total $	# of Countries	% of Countries	# of Tasks	% of Tasks
AFR	30,270	12%	20	27%	97	24%
ANE	51,471	21%	16	22%	126	31%
E&E	138,933	56%	23	32%	84	21%
LAC	23,024	9%	14	19%	44	11%
Global	5,018	2%	-	-	51	13%
Total	248,717	100%	73	100%	402	100%

* Amounts are in $1,000s

Average $ per Country	3,407
Average $ per Year	17,765
Average $ per Project/TO	619

EM IQCs:	SEGIR FS
	SEGIR LIR
	SEGIR GBTI
	SEGIR Privatization
	SEGIR Macro
	FSDP II
	FSDP I
	PEDS I
	PEDS II
	PEDS III
	CAER I
	CAER II
	Privatization & Divestiture IQC
	IRIS Cooperative Agreement

"Expanding Access to Financial Services" in Uganda cost over $17 million. Kosovo's "Financial Sector Reform" cost just under $17 million, and Bosnian "Bankers' Training" cost $8.25 million. Bolivian "Rural Financial Services" cost $7.36 million. All the rest were under $6 million.

But the average size of all the tasks associated with EM, as shown in the table above, was only $619,000, just 39% of the $1,589,000 average for all the financial sector tasks reported. So it is no surprise, as reference to Table 2 will show, that, in number of assignments, EM tasks comprised 53% of the financial sector total, but only 21% of the total dollars authorized for financial sector reform.

EM Table 1 also shows, in contrast with the world-wide totals, that more EM tasks were in Asia and in Africa than in E&E countries. Nevertheless, 57% of the authorizations under EM went to E&E countries, nearly the same as the 58% of all the financial sector authorizations for E&E countries. Perhaps surprising, given the larger total number of countries in sub-Saharan Africa, USAID assisted financial sector reform in more E&E than African countries. Note also that EM tasks reached 73 countries, 14 fewer than in the over-all total.

EM Table 2, below, shows the dollar amounts and the percentages of the dollar total financial sector reform money going, under EM sponsorship, to countries in each of the World Bank's four income categories. EM Table 2 also shows the number of countries assisted under EM sponsorship in each income category.

Table 2: Office of Emerging Markets Vehicles
USAID FS Programs by Income Level (1988 - 2001)

Income Level	Program Expenditure		Countries		Projects/TOs	
	$ Amount	%Total $	# of Countries	% of Countries	# of Tasks	% of Tasks
1	74,998	30%	30	41%	141	35%
2	133,294	54%	29	40%	173	43%
3	11,802	5%	11	15%	33	8%
4	168	0%	2	3%	2	0%
**	23,436	9%	1	1%	2	0%
Global	5,018	2%	-	0%	51	13%
Total	248,717	100%	73	100%	402	100%

* Amounts are in $1,000s

Note: AFR-wide projects included in income Level 1
Note: ANE-wide, E&E-wide, LAC-wide projects included in income Level 2

Average size of income Level 1 Project:	532
Average size of income Level 2 Project:	770
Average size of income Level 3 Project:	358
Average size of income Level 4 Project:	84
Average size of ** Project:	11,718
Average size of Global Project:	98

Level	GDP per Capita
1	$760 or less
2	$761 - 3,030
3	$3,031 - 9,360
4	more than $9,360

** Refers to Kosovo, which lacks GDP info.

78% of the tasks and 84% of the EM funding went to (compared with 79% and 84% in the over-all totals) countries in the low income and lower-middle-income categories. EM Table 2 also shows that 51 of the tasks for global applications, out of a total of 68 sponsored by all USAID offices, passed through EM-facilitated vehicles.

EM Table 3 (next page) shows the dollar amounts and the percentages of the dollar total of financial sector reform money going, under EM sponsorship, to countries in each of our five stages of financial sector development. EM Table 3 also shows the number of assisted countries in each of the five stages. As with Table 4 above, more information on how the levels of financial sector development were determined accompanies EM Table 3 in the appendix.

38% of the tasks and 74% of EM funding (compared with 41% and 58% respectively for the over-all totals) went to countries in the bottom two stages of financial sector development. And following from that, 37% of the tasks and 19% of EM funding (compared with over-all 32% and 22%) went to countries in the top two stages of financial sector development.

Table 3: Office of Emerging Markets Vehicles
Program Allocation by Financial Sector Development Level (1988 - 2001)

Development Level	$ Amount	%Total $	# of TOs	% of TOs	# of Countries	% of Countries
1	126,312	51%	81	20%	23	32%
2	56,408	23%	74	18%	11	15%
3	14,426	6%	47	12%	11	15%
4	20,227	8%	55	14%	11	15%
5	26,325	11%	94	23%	16	22%
Global	5,018	2%	51	13%	0	0%
Total	248,717	100%	402	100%	72	100%

* Amounts are in $1,000s

VI. B. Division of EGAT/EM Tasks Among Financial Sector Sub-sectors

EM Table 4 shows how the $248 million in EM-sponsored financial sector assistance was divided among the six sub-sectors and the seventh category of "Multi-sector." Securities markets and banking together received over half of the help, by dollar value. EM authorized a larger portion of its tasks, 30%, and a much larger portion of its funding, 33%, (compared with 25% and 20% over-all) for banking reform.

Table 2 also shows that, while EM-facilitated contracts accounted for only 21% of all financial sector development funding, 45% of USAID funding for pension and insurance reform, 31% of all funding for micro-finance/rural/SME reform, and 34% of Banking reform passed through EM.

EM Table 4, below, further shows how EM-sponsored assistance within each

Table 4: Office of Emerging Markets Vehicle
Program Allocation by Sector and Development Level (1988 - 2001)

Development Level	Commercial Banking				Securities & Commodities				Pensions & Insurance				Housing Finance			
	$	$%**	#	#%**	$	$%**	#	#%**	$	$%**	#	#%**	$	$%**	#	#%**
1	44,183	35%	28	35%	17,320	14%	16	20%	-	0%	-	0%	14,300	11%	1	1%
2	19,830	35%	31	42%	16,795	30%	16	22%	7,941	14%	4	5%	-	0%	-	0%
3	3,377	23%	12	26%	2,851	20%	14	30%	330	2%	3	6%	-	0%	-	0%
4	6,687	33%	14	25%	2,450	12%	17	31%	2,646	13%	5	9%	-	0%	0	0%
5	6,327	24%	29	31%	6,802	26%	28	30%	5,221	20%	6	6%	68	0%	1	1%
Global	539	11%	7	14%	362	7%	3	6%	715	14%	5	10%	88	2%	5	10%
Total	*80,942*	*33%*	*121*	*30%*	*46,581*	19%	*94*	23%	*16,853*	7%	*23*	6%	*14,456*	6%	*7*	2%

* Amounts are in $1,000s ** Percentage of Level Total

Development Level	Micro, Rural, SME Finance				Other NBFIs				Multi-Sector				**Total**			
	$	$%**	#	#%**	$	$%**	#	#%**	$	$%**	#	#%**	$	$%***	#	#%***
1	24,262	19%	9	11%	1,711	1%	5	6%	24,536	19%	22	27%	126,312	51%	81	20%
2	2,060	4%	2	3%	625	1%	9	12%	9,157	16%	12	16%	56,408	23%	74	18%
3	3,087	21%	6	13%	1,378	10%	6	13%	3,403	24%	6	13%	14,426	6%	47	12%
4	6,737	33%	9	16%	954	5%	3	5%	754	4%	7	13%	20,227	8%	55	14%
5	5,187	20%	7	7%	1,222	5%	9	10%	1,497	6%	14	15%	26,325	11%	94	23%
Global	1,012	20%	5	10%	434	9%	3	6%	1,869	37%	23	45%	5,018	2%	51	13%
Total	*42,346*	*17%*	*38*	9%	*6,323*	3%	*35*	9%	*41,216*	17%	*84*	21%	*248,717*	100%	*402*	*100%*

* Amounts are in $1,000s ** Percentage of Level Total *** Percent of Overall Total

sub-sector was divided (dollars and tasks) among the countries at each of our five stages of financial sector development.

Even more than in the over-all totals of Table 5 above, EM-funded assistance to banking, securities markets, housing finance, and multi-sector reform concentrated in countries in the two bottom categories of financial sector development. As in the overall totals, EM funding of micro-finance/rural/SME reform was mostly for countries in the bottom and in the top two stages of financial sector development.

EM Table 5, below, shows for each USAID region the importance of EM funding in each sub-sector relative to particular totals. Again, the percentage figures are to be read in downward sequence: horizontally, vertically, and diagonally. For example, the $4,313,000 authorized for commercial banking in AFR was 14% of all the $30,270,000 EM authorized for AFR, 5% of the $80,942,000 EM authorized for that sub-sector, and 2% of total EM funding.

Looking at the bottom line of each region, we can see how funding for a particular financial sub-sector in that particular region weighs in as a percentage of

Table 5: Office of Emerging Markets Vehicles

Aggregate Program Values and Weightings by Sector and Region (1988 - 2001)

		Commercial Banking	Securities & Commodities	Pensions & Insurance	Housing Finance	Micro, Rural, SME Finance	Other NBFIs	Multi-Sector	Regional Total
AFR	$ Amount	4,313	3,256	-	-	18,901	2,676	1,123	30,270
	# of TOs	33	24	-	-	11	17	12	97
	% Regional Total $	14%	11%	0%	0%	62%	9%	4%	
	% Intervention Total $	5%	7%	0%	0%	45%	42%	3%	
	% EM FS Total $	2%	1%	0%	0%	8%	1%	0%	
ANE	$ Amount	12,105	20,931	4,275	-	6,452	2,064	5,645	51,471
	# of TOs	30	45	9	-	10	8	24	126
	% Regional Total $	24%	41%	8%	0%	13%	4%	11%	
	% Intervention Total $	15%	45%	25%	0%	15%	33%	14%	
	% EM FS Total $	5%	8%	2%	0%	3%	1%	2%	
E&E	$ Amount	62,744	21,605	8,106	14,368	-	196	31,914	138,933
	# of TOs	39	13	6	2		4	20	84
	% Regional Total $	45%	16%	6%	10%	0%	0%	23%	
	% Intervention Total $	78%	46%	48%	99%	0%	3%	77%	
	% EM FS Total $	25%	9%	3%	6%	0%	0%	13%	
LAC	$ Amount	1,241	427	3,757	-	15,980	954	666	23,024
	# of TOs	12	9	3	-	12	3	5	44
	% Regional Total $	5%	2%	16%	0%	69%	4%	3%	
	% Intervention Total $	2%	1%	22%	0%	38%	15%	2%	
	% EM FS Total $	0%	0%	2%	0%	6%	0%	0%	
Global	$ Amount	539	362	715	88	1,012	434	1,869	5,018
	# of TOs	7	3	5	5	5	3	23	51
	% Regional Total $	11%	7%	14%	2%	20%	9%	37%	
	% Intervention Total $	1%	1%	4%	1%	2%	7%	5%	
	% EM FS Total $	0%	0%	0%	0%	0%	0%	1%	
Total	**$ Amount**	**80,942**	**46,581**	**16,853**	**14,456**	**42,346**	**6,323**	**41,216**	248,717
	% EM FS Total $	**33%**	**19%**	**7%**	**6%**	**17%**	**3%**	**17%**	**100%**
	# of TOs	**121**	**94**	**23**	**7**	**38**	**35**	**84**	**402**
	% EM FS Total TOs	**30%**	**23%**	**6%**	**2%**	**9%**	**9%**	**21%**	**100%**
	Average TO $ Value	**669**	**496**	**733**	**2,065**	**1,114**	**181**	**491**	**619**

* Amounts are in $1,000s

the EM total. The five largest, thus, were E&E Commercial Banking (25%), E&E Multi-Sector programs (13%), E&E Securities and Commodities (9%), ANE Securities & Commodities (8%) and AFR Micro/Rural/SME Finance (8%).

VI.C. Changes Over Time in The Division of Financial Sector Assistance Among Sub-sectors

EM Table 6, below, shows the dollar amounts authorized, under EM sponsorship, each year, 1988-2001, in each sub-sector. Over the 14 years, 1988 thru 2000, no particular trend in allocations among sub-sectors stands out - except for the growth of attention to Pension and Insurance reform. Rather the time

Table 6: Office of Emerging Markets Vehicles
New project Authorization by Year and Sector (1988 - Present)

	TOs	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Commercial Banking	$	23	597	190	800	360	164	215	1,763	1,311	5,248	11,242	12,069	39,843	7,118
	#	2	14	1	11	7	5	10	16	2	5	15	9	17	7
	%($)	5%	24%	12%	11%	9%	5%	6%	15%	26%	46%	44%	34%	44%	16%
Securities & Commodities	$	-	1,311	435	376	1,622	264	1,316	2,008	2,955	2,470	6,886	4,683	13,989	8,265
	#	-	14	6	8	9	4	7	7	11	8	5	6	4	5
	%($)	0%	52%	28%	5%	42%	8%	34%	17%	60%	22%	27%	13%	15%	18%
Pensions & Insurance	$	-	-	15	2,713	1,524	26	100	115	-	224	2,329	4,030	2,569	3,207
	#	-	-	1	5	1	1	1	1	-	2	3	4	1	3
	%($)	0%	0%	1%	37%	39%	1%	3%	1%	0%	2%	9%	11%	3%	7%
Housing Finance	$	-	-	-	68	-	66	22	-	-	-	-	-	-	14,300
	#	-	-	-	1	-	4	1	-	-	-	-	-	-	1
	%($)	0%	0%	0%	1%	0%	2%	1%	0%	0%	0%	0%	0%	0%	31%
Micro, Rural, SME Finance	$	-	-	64	18	204	23	827	4,555	601	158	315	2,104	25,652	7,825
	#	-	-	1	1	1	1	3	5	6	1	3	5	7	4
	%($)	0%	0%	4%	0%	5%	1%	22%	39%	12%	1%	1%	6%	28%	17%
Other NBFIs	$	351	94	100	55	31	83	314	292	4	2,348	-	790	1,768	93
	#	4	3	2	1	1	1	3	6	1	4	-	2	6	1
	%($)	72%	4%	6%	1%	1%	3%	8%	3%	0%	21%	0%	2%	2%	0%
Multi-Sector	$	114	522	751	3,360	148	2,553	1,047	2,865	90	864	4,869	11,584	7,350	5,100
	#	5	10	12	7	2	8	4	4	2	5	10	5	6	4
	%($)	23%	21%	48%	45%	4%	80%	27%	25%	2%	8%	19%	33%	8%	11%
Total	$	488	2,523	1,555	7,389	3,889	3,179	3,841	11,598	4,961	11,313	25,642	35,259	91,171	45,908
	#	11	41	23	34	21	24	29	39	22	25	36	31	41	25

* Amounts are in $1,000s

series proceeds with jerky single year concentrations for individual sectors. Up until 1996, the sub-sectors receiving the most attention were Securities and Commodities Markets and Multi-Sector programs. In 1997, though, the focus shifted more towards Commercial Banking.

VI.D. Division Between The Regulated and The Regulators in Each Intervention Type

EM Table 7 (next page) shows, by intervention type, the extent to which EM-facilitated funding was directed sometimes only to the regulated institutions, sometimes to the regulating institutions, and more often, to both in each intervention type.

Only for privatization and asset resolution was more money provided explicitly to the two categories (Regulator and Market Participant) than to both simultaneously. In both of these intervention types, most of the money went to the regulatory institutions. Overall, 36% of the EM tasks, with 48% of the funding,

Table 7: Office of Emerging Markets Vehicles

Total Number of Projects by Realm and Type of Intervention (1988 - 2001)

		Evaluation, Assessment	Legislation	Regulation, Supervision	Enforcement	FS Institution Privatization	Institution Building	Asset Resolution	Transparency	Training, Conferences	Public Relations	*Sum of Projects by Intervention*	**Actual Total by Realm**	**% Total TOs; % Total $**	
Market Regulator	Number	32	20	28	2	7	30	16	18	33	6	*192*	**77**	19%	Market Regulator
	Total $Amount	11,622	21,646	21,658	3,683	7,307	31,095	19,226	16,896	29,055	5,617	*167,803*	**46,134**	19%	
Market Participant	Number	96	2	3	0	4	44	1	36	41	6	*233*	**158**		
	Total $Amount	10,671	16,779	5,776	-	2,590	54,349	10	36,697	46,611	2,765	*176,247*	**73,814**		
Both	Number	91	25	34	5	8	48	6	22	48	16	*303*	**143**	36%	Both
	Total $Amount	50,752	67,300	89,246	11,985	9,249	96,148	12,061	54,327	84,357	50,885	*526,309*	**119,332**	48%	
Within USAID	Number	11	0	0	0	0	1	0	0	14	1	*27*	**23**		
	Total $Amount	3,031	-	-	-	-	97	-	-	3,299	23	*6,451*	**3,936**		
Total	Number	230	47	65	7	19	395	23	76	136	29	*1,027*	**402**		**Total**
	Total $Amount	76,076	105,724	116,679	15,668	19,145	181,689	31,297	107,920	163,321	59,290	*876,810*	**248,717**		
	% of Projects	57%	12%	16%	2%	5%	98%	6%	19%	34%	7%	*255%*			
	%of Total AID $ Amount	31%	43%	47%	6%	8%	73%	13%	43%	66%	24%	*353%*			

* Amounts are in $1,000s

went for projects where both regulatory and financial intermediary reform occurred simultaneously. 58% of the tasks and 49% of the money sought reform of either regulators or the regulated institutions. The remaining 6% of tasks and 2% of funding went to internal USAID assignments (mainly staff training and evaluations).

VI.E. Numbers of Times EGAT/EM Addressed Particular Sub-sector Reforms

EM Table 8 shows the amount of EM-facilitated funding and the number of tasks specifying each kind of reform target in each sub-sector with, once more, a great deal of double counting. The dollar amounts here indicate the total value

Table 8: Office of Emerging Markets Vehicles

Program Allocation by Sector and Intervention Type (1988 - 2001)

	Commercial Banking			Securities & Commodities			Pensions & Insurance			Housing Finance		
	$	#	%	$	#	%	$	#	%	$	#	%
Evaluation, Assessment	37,241	**65**	**34%**	27,411	**76**	**44%**	9,461	**18**	**50%**	4,610	**7**	**23%**
Legislation	56,091	**18**	**9%**	124,352	**39**	**23%**	14,475	**6**	**17%**	20,200	**5**	**16%**
Regulation, Supervision	134,752	**49**	**26%**	157,163	**49**	**29%**	17,861	**7**	**19%**	2,500	**1**	**3%**
Enforcement	3,331	**2**	**1%**	33,689	**5**	**3%**	4,261	**2**	**6%**	-	**-**	**0%**
FS Institution Privatization	16,833	**12**	**6%**	45,177	**7**	**4%**	7,948	**7**	**19%**	-	**-**	**0%**
Institution Building	188,170	**80**	**42%**	237,627	**95**	**56%**	29,919	**15**	**42%**	80,795	**24**	**77%**
Asset Resolution	47,533	**29**	**15%**	26	**1**	**1%**	-	-	**0%**	-	**-**	**0%**
Transparency	71,349	**47**	**25%**	120,251	**28**	**16%**	5,938	**5**	**14%**	-	**-**	**0%**
Training, Conferences	158,349	**93**	**49%**	152,873	**49**	**29%**	17,123	**13**	**36%**	7,684	**8**	**26%**
Public Relations	35,541	**8**	**4%**	85,005	**16**	**9%**	9,443	**6**	**17%**	853	**1**	**3%**
Totals	*749,191*	*403*	*211%*	*983,573*	*365*	*213%*	*116,428*	*79*	*219%*	*116,642*	*46*	*148%*
Actual Totals by Sector	237,381	**191**	100%	270,429	**171**	100%	37,219	**36**	100%	81,221	**31**	100%

	Micro, Rural, SME Finance			Other NBFIs			Multi-Sector			Total Instances per Intervention	
	$	#	%	$	#	%	$	#	%	$	#
Evaluation, Assessment	24,386	**35**	**40%**	9,406	**31**	**33%**	14,662	**51**	**34%**	127,177	**283**
Legislation	18,318	**6**	**7%**	15,239	**9**	**9%**	193,048	**24**	**16%**	441,722	**107**
Regulation, Supervision	33,107	**10**	**11%**	16,660	**11**	**12%**	197,050	**23**	**15%**	559,093	**150**
Enforcement	-	**-**	**0%**	-	**-**	**0%**	49,915	**4**	**3%**	91,196	**13**
FS Institution Privatization	507	**1**	**1%**	9,845	**2**	**2%**	51,295	**4**	**3%**	131,606	**33**
Institution Building	111,993	**58**	**67%**	114,743	**57**	**60%**	301,540	**65**	**43%**	1,064,785	**394**
Asset Resolution	-	**-**	**0%**	-	**-**	**0%**	47,324	**4**	**3%**	94,882	**34**
Transparency	25,606	**6**	**7%**	8,902	**8**	**8%**	92,679	**31**	**21%**	324,725	**125**
Training, Conferences	80,892	**32**	**37%**	95,492	**50**	**53%**	166,227	**59**	**39%**	678,641	**304**
Public Relations	8,332	**3**	**3%**	16,438	**7**	**7%**	53,270	**7**	**5%**	208,882	**48**
Totals	*303,141*	*151*	*174%*	*286,723*	*175*	*184%*	*1,167,010*	*272*	*181%*	*3,722,708*	*1,491*
Actual Totals by Sector	117,736	**87**	100%	121,254	**95**	100%	343,963	**150**	100%	1,209,203	**761**

* Amounts are in $1,000s

of all tasks (in that sub-sector) where a certain type of technical assistance occurred. The greatest over-counting (multiple reform areas) is in insurance and pensions, second, in banking, and third, in securities markets.

EM Table 8 also shows the percent of all tasks in a sub-sector that included a particular reform area. For example, of all the 191 EM-sponsored tasks directed at bank reform, 52% required an evaluation. Especially remarkable in EM Table 8, in every sub-sector, over 34% of the EM-facilitated tasks required an evaluation (percentages very much higher than for the over-all figures. Further, in every sub-sector, more tasks are counted in the "evaluations" row than in any other. 230 EM tasks contained evaluation, out of only 283 USAID total financial sector projects containing that type of technical assistance. This means that, with 81% of evaluated projects occurring under its watch, the Office of Emerging Markets has already proven to be the driver of USAID's financial sector evaluation and assessment initiatives.

In most of the sub-sectors, institution building, training, and regulation usually show the largest number of relevant tasks. The banking and multi-sector sub-sectors also have a large percentage of tasks directed at accounting and transparency efforts. The securities market sub-sector has a large percentage of tasks directed at legislative changes. The insurance and pensions sub-sector has a large percentage of tasks directed at institution privatization.

Table 9: Office of Emerging Markets Vehicles

Top 25 Countries by use of EM Vehicles (1988 - 2001)

Rank	Country	TO #	Total $ ($,000)	% of FS$		
1	Bulgaria	12	29,994	12%		
2	West Bank/Gaza	15	24,158	10%		
3	Ukraine	8	23,784	10%		
4	Kosovo	2	23,436	9%		
5	Uganda	14	19,706	8%	*Top 5 $*	
6	Bosnia	4	13,820	6%	*121,079*	*49%*
7	Russia	11	12,319	5%		
8	Bolivia	7	7,566	3%		
9	Egypt	15	7,419	3%		
10	Indonesia	16	7,126	3%	*Top 10 $*	
11	Ecuador	8	5,932	2%	*169,330*	*68%*
12	India	13	5,319	2%		
13	Macedonia	5	4,816	2%		
14	Moldova	2	3,934	2%		
15	Romania	1	3,656	1%		
16	Albania	5	3,122	1%		
17	Honduras	8	2,670	1%		
18	Paraguay	1	2,612	1%		
19	South Africa	10	2,543	1%		
20	Armenia	2	2,418	1%		
21	Madagascar	6	2,172	1%		
22	Yugoslavia	1	1,991	1%		
23	Mexico	1	1,990	1%		
24	Croatia	2	1,990	1%		
25	Georgia	4	1,979	1%	*Top 25 $*	
	Total	173	216,472	87%	*216,472*	*87%*

Total USAID FS Program $ 248,717

Projects 402

EM Table 9 above shows the top 25 recipients of EM-facilitated financial sector develoment technical assistance. This group shows how concentrated technical assistance funding can be on a select few recipient countries. EM Table 9 shows us that EM-facilitated funding is even more concentrated than the broader USAID financial sector efforts. The top 5 countries receive nearly 50% of the funding, through EM, while the top 10 receive nearly 70% and the top 25 receive nearly 90%. The EM top country break-down is similar to the overall USAID financial sector break-down, with 31% being allocated to the former Soviet Union and satellites (excluding Balkans). The crisis areas are especially favored in the EM-facilitated programs, perhaps because of the contracting facility and rapid response allowed by the vehicles. The Balkans region received some 20% of the funding, while the Middle East (just Egypt and the West Bank/Gaza among the top 25) saw some 13% of the funding.

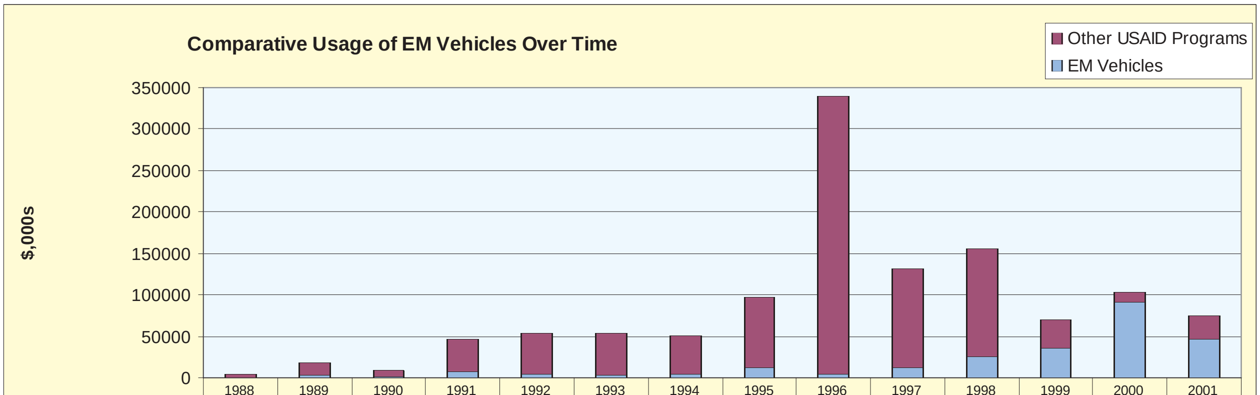
EM Table 10 (below) demonstrates the growing popularity of G/EGAT/EM financial sector IQCs over the past fourteen years. In 1988 when the first such vehicle was introduced (FSDP I), the task orders were small and largely assessment-focused. Since then, use of EM-facilitated contract vehicles has grown steadily, from $488 thousand in 1988 to a peak of $91 million in 2000, then dropping off in 2001. The reasons for the increased use of EM vehicles are, as mentioned before, the ease of contracting embodied in the newer vehicles such as SEGIR, and with that the possibility, if necessary, of quicker response to demand than would be offered through a traditional "full and open" procurement.

Table 10: Comparative Usage of EM Vehicles over Time (1988 - 2001)

	TOs	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Total
Commercial Banking	*Total $*	*23*	*597*	*190*	*24,419*	*2,508*	*4,236*	*7,546*	*11,467*	*49,312*	*27,761*	*14,773*	*27,633*	*43,832*	*23,084*	*237,381*
	EM $	23	597	190	800	360	164	215	1,763	1,311	5,248	11,242	12,069	39,843	7,118	80,942
	Non-EM$	-	-	-	23,620	2,148	4,072	7,331	9,704	48,001	22,513	3,531	15,564	3,989	15,966	156,439
	EM%	100%	100%	100%	3%	14%	4%	3%	15%	3%	19%	76%	44%	91%	31%	34%
Securities & Commodities	*Total $*	-	*1,311*	*435*	*376*	*12,099*	*27,400*	*18,949*	*34,623*	*49,531*	*37,218*	*53,350*	*4,683*	*14,189*	*16,265*	*270,430*
	EM $	-	1,311	435	376	1,622	264	1,316	2,008	2,955	2,470	6,886	4,683	13,989	8,265	46,581
	Non-EM$	-	-	-	-	10,477	27,136	17,633	32,615	46,576	34,748	46,464	-	200	8,000	223,849
	EM%	-	100%	100%	100%	13%	1%	7%	6%	6%	7%	13%	100%	99%	51%	17%
Pensions & Insurance	*Total $*	-	-	*15*	*8,474*	*1,524*	*26*	*139*	*2,257*	*8,661*	*3,146*	*2,669*	*4,532*	*2,569*	*3,207*	*37,219*
	EM $	-	-	15	2,713	1,524	26	100	115	-	224	2,329	4,030	2,569	3,207	16,853
	Non-EM$	-	-	-	5,761	-	-	39	2,142	8,661	2,921	340	502	-	-	20,366
	EM%	-	-	100%	32%	100%	100%	72%	5%	0%	7%	87%	89%	100%	100%	45%
Housing Finance	*Total $*	-	-	-	*68*	*13,818*	*66*	*12,390*	*1,978*	*22,496*	*9,833*	*3,537*	*2,735*	-	*14,300*	*81,221*
	EM $	-	-	-	68	-	66	22	-	-	-	-	-	-	14,300	14,456
	Non-EM$	-	-	-	-	13,818	-	12,368	1,978	22,496	9,833	3,537	2,735	-	-	66,765
	EM%	-	-	-	100%	0%	100%	0%	0%	0%	0%	0%	0%	-	100%	18%
Micro, Rural, SME Finance	*Total $*	-	*300*	*64*	*18*	*5,289*	*143*	*2,402*	*15,775*	*14,946*	*20,014*	*15,561*	*4,104*	*27,046*	*12,075*	*117,737*
	EM $	-	-	64	18	204	23	827	4,555	601	158	315	2,104	25,652	7,825	36,846
	Non-EM$	-	300	-	-	5,085	120	1,575	11,220	14,345	19,856	15,246	2,000	1,394	4,250	80,891
	EM%	-	0%	100%	100%	4%	16%	34%	29%	4%	1%	2%	51%	95%	65%	31%
Other NBFIs	*Total $*	*3,737*	*15,103*	*762*	*9,155*	*13,108*	*6,752*	*8,368*	*14,943*	*20,518*	*9,448*	*8,014*	*3,287*	*7,965*	*93*	*121,254*
	EM $	351	94	100	55	31	83	314	292	4	2,348	-	790	1,768	93	6,323
	Non-EM$	3,386	15,009	662	9,100	13,077	6,670	8,054	14,650	20,515	7,100	8,014	2,497	6,197	-	114,930
	EM%	9%	1%	13%	1%	0%	1%	4%	2%	0%	25%	0%	24%	22%	100%	5%
Multi-Sector	*Total $*	*114*	*522*	*7,516*	*3,360*	*5,898*	*14,933*	*1,294*	*16,582*	*174,743*	*23,521*	*58,159*	*23,970*	*8,250*	*5,100*	*343,962*
	EM $	114	522	751	3,360	148	2,553	1,047	2,865	90	864	4,869	11,584	7,350	5,100	41,216
	Non-EM$	-	-	6,765	-	5,750	12,381	247	13,718	174,653	22,657	53,290	12,386	900	-	302,746
	EM%	100%	100%	10%	100%	3%	17%	81%	17%	0%	4%	8%	48%	89%	100%	12%
Total	*Total $*	*3,874*	*17,832*	*8,982*	*45,870*	*54,244*	*53,557*	*51,088*	*97,625*	*340,208*	*130,941*	*156,064*	*70,943*	*103,851*	*74,124*	*1,209,203*
	EM $	488	2,523	1,555	7,389	3,889	3,179	3,841	11,598	4,961	11,313	25,642	35,259	91,171	45,908	248,717
	Non-EM$	3,386	15,309	7,427	38,481	50,355	50,378	47,247	86,027	335,247	119,628	130,422	35,683	12,680	28,216	960,486
	EM%	0	14%	17%	16%	7%	6%	8%	12%	1%	9%	16%	50%	88%	62%	21%

* Amounts are in $1,000s

But, as indicated in the graphic below (a visual depiction of the data provided in EM Table 10), though non-EM projects still tend to heavily outweigh EM-sponsored programs (in terms of dollar value of individual projects), EM-facilitated programs have grown to account for some 60% of total dollar authorization by 2001. It has become increasingly clear that, so long as EM continues to offer the types of innovative vehicles currently available, the share of total USAID financial sector technical assistance passed through EM-facilitated contracts will continue to grow.



	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Other USAID Programs	3386	15309	7427.3	38481.2	50354.9	50378.193	47246.882	86026.806	335246.5	119628.02	130422	35683.3	12680	28216
EM Vehicles	488.044	2523.4085	1554.998	7388.7116	3889.0413	3179.194	3841.0029	11598.211	4961.101	11312.799	25642.075	35259.44	91170.5	45908

VII. WHAT USAID BRINGS TO EFFORTS TO INCREASE FINANCIAL SECTOR EFFICIENCY

VII.A. USAID's Advantages Helping Political and Institutional Reform

USAID's principal advantage has, since its inception, been the long-term presence of its missions in host countries. USAID's resident staff are more numerous and usually serve longer in a country than do representatives of the World Bank, IMF, and other donors. USAID staff develop both professional and social connections with local technicians and decision-makers. They share experiences and build mutual confidence which facilitate cooperation when in agreement, resolution of differences, and access to the highest level of policy-makers.

Medium-term residence, observation and close personal contacts provide an understanding of what needs to be done in policy and institutional areas, when possible, and when efforts at providing assistance become unproductive. Residence allows USAID staff to observe reform implementation and to anticipate and help resolve problems before or as they occur.

The staff of the international financial institutions (the IFIs, including the IMF, the World Bank, regional development banks, among others) and other donors acknowledge USAID's ground-level exposure by, so often, visiting the USAID mission on arrival in and before departure from a country. Of course, one reason for these visits is that USAID staff so often take responsibility for helping government officials meet IFI conditions. While Resident Representatives and visiting IFI technicians set "Thou shalt do" conditions for host governments, they rarely help fund or take much interest in the grubby details of step-by-step implementation. USAID staff frequently fill in the implementation gaps to create the institutions and provide the training needed to satisfy those conditions. Respecting the former communist nations, the European Union, the World Bank, and the IMF are all active in their financial sectors, but USAID is quite consistently the outside institution that helps most with the technical details. Further, USAID staff are often viewed as honest brokers with no agenda other than the host nation's welfare, so they may be viewed as allies, sympathetic to perceived national interests, when the IFIs appear less so.

Mission and Washington USAID staff also often demonstrate an ability to respond rapidly to host government needs for technical assistance with policy and institutional reform. USAID's alacrity follows partly from each mission's convenient local presence with its own well-informed technicians with knowledgeable anticipation of coming needs and partly from USAID's contracting arrangements that give mission staff quick access to technical specialists under 3 to 5-year contracts that enable rapid response.

USAID also enjoys an advantage in its Washington location, cheek by jowl with the World Bank, the IMF, and the Inter-American Development Bank. Although the Treasury seeks to maintain an impenetrable wall between USAID staff and IMF staff[19], USAID interchanges with the staff of the World Bank and the Inter-American Development Bank are warm, frequent, and advantageous to all participants.

VII.B. Constraints on USAID's Rrole in Policy and Institutional Reform

The Kennedy Administration understood that growth-enhancing policies in trade and finance and in fiscal and monetary policy are essential for poverty reduction. But few photo opportunities result from USAID financial sector development activities or from institutional reforms -- at least none that would win daily newspaper coverage of the kind that can come from medical, education, and food relief activities. Further, since 1964, members of Congress have generally been oblivious to the importance of policy reform as the basis for economic development and poverty reduction. This is partly because successive USAID administrations have left Congress oblivious to the policy and institutional reforms the Agency has successfully assisted.

The principal constraint on what USAID can do in particular instances results from the increase in severity, over time, of the conflict between its responsibilities and its means. Congress and every Administration want USAID money and staff to do many things in many countries. Congressional interest in USAID has been characterized by a series of earmarks directing USAID to spend on particular narrow uses pushed by domestic lobbies. The earmarks greatly restrict USAID professionals' discretion in choosing projects that maximize developmental returns to American taxpayers and welfare returns to the poor of assisted nations.

Further, over the past 10 or 12 years, USAID's management has substantially reduced the numbers of experienced economists and private sector officers on its staff. During the 1990s, 29 senior USAID economists retired[20] or left the Agency for other reasons, and no economists were hired to replace them during the 1990s. This has, of course, reduced the Agency's internal capacity to initiate, implement, or oversee financial sector development of any kind as a principal tool for long-term poverty reduction. This has greatly increased the Agency's dependence on contractors. Trying, since early 2000, to hire young

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[19] *In a letter, dated 29 March 1985, to M. Malcolm McPherson, then USAID Administrator, Beryl W. Sprinkel, then Treasury Under Secretary for Monetary Affairs, reinforced Treasury's inflexible rule, "Treasury will continue to insist that all contacts with the [International Monetary] Fund be channeled through the Executive Director's office."*

[20] *Jane Bardon, Alan Batchelder, Juan Belt, Robert Burke, Stuart Callison, Colette Cowey, John Chang, Phillip Church, Edward Costello, Rhaga Dwividy, David Dodd, Forest Duncan, James Fox, Mark Gallagher, David Hoelscher, Dick Johnson, Jerry LaPittus, Frank Martin, Thomas Miller, James Mudge, James Norris, Lee Ann Ross, Larry Saiers, Samual Skogstaad, Scott Thomas, Peter Thorman, Michael Unger, James Walker, and Jerry Wolgin.*

economists, USAID recruiters have found their salary/benefit offers low by current market standards; so new hires have been few even when sought.

VII.C. Omissions by EGAT/EM

Over the past five years the Office of Emerging Markets has declined in size, technical capacity and financial resources. Earlier in the 1990s, EM sponsored several IQCs that specialized in small assessment-level projects, such as CAER and FSDP I. EM had a budget which enabled it to sponsor reseaerch into trends and development options, as well as some globally-initiated technical assistance. Reductions in core funds, along with the gradual decline of staff size, and the shifting of economists' and technically-skilled professionals' responsibilities to simple contract management have prevented EM from making similar contributions in recent years. Furthermore, EM's resource cutbacks have deprived the broader community of USAID staff of information that might be very valuable to them. Three examples may indicate how serious this loss of information may be:

The first example: Three missions, Colombo, Jakarta, and Manila, used SEGIR to get outside evaluations of their own financial sector reform projects. In the mid nineties, the Agency moved away from conditioned lending. Freed from enforcing conditionality, mission staff could begin to find ways to elicit reforms by finding ways to support reformers within host governments and, thereby, to associate USAID purposes with reforms "owned" by host governments' senior officials.

In this regard, Manila's project stands out, as of the February 2000 evaluation, as an extraordinary success for both mission design and implementation. "Accelerating Investment and Liberalization with Equity" (AGILE), running from June 1998 to September 2001, took advantage of the substantial number of Government of the Philippines (GOP) officials sharing the mission's views on reform. AGILE's contractors found very senior GOP counterparts sharing the Mission's objectives for their agencies and arranged AGILE satellite offices run by mid-level Filipino Task Managers inside each cooperating agency.

AGILE's contractors addressed some 60 policy and institutional reforms using several hundred long-term and, mostly, short-term consultants in bank regulation, the stock exchange, the Securities and Exchange Commission, and various savings institutions. The contractors trained staff, helped reorganize institutions, and helped rewrite regulations. Most surprising, the Filipino Chief of Party (CoP) and the Filipino Task Managers presented two dozen pieces of proposed legislation to the Philippine Congress. The CoP and the Task Managers testified in support before Congressional committees and participated in writing amendments. Yet, never once did a newspaper or a politician criticize any element in the Mission's program as Yankee Imperialism. This was because the

Mission created Philippine ownership of a wide-ranging policy-reform agenda extending throughout the financial sector.

AGILE's success, detailed in its midterm review under a SEGIR SOW, followed from an innovative design that might usefully be considered for adaptation and use by other missions. But EM's understaffing keeps it from serving as a leader able to identify such USAID successes and to encourage other missions to consider adoption of like-minded program designs. In fact, the EM staff is so small that, in the ordinary course of office business, they would be unlikely to find out about such an outstanding USAID success story.

A second example: in 1996, EM staff began to maintain, available to all, a comprehensive Web-enabled database of all of the Agency's economic development activities. The contractor compiling the information tried to identify all relevant USAID activities back to approximately 1988. Because of fund and personnel cutbacks, EM abandoned the file with its over 2,700 entries in 1999. The authors of this report were dismayed to find that weeks were required before they could find a CD of the abandoned file and find a way to read it. While it existed, the database gave USAID staff or any other observer concerned with financial sector (and other economic) development and reform, opportunities to see what others had done or were doing.

A third example: the CAER program was a long-running engagement, implemented by HIID (Harvard Institute for International Development), producing numerous scholarly papers and research on a variety of economic and financial sector topics. HIID made all of its briefing notes, discussion papers, and conference transcripts easily accessible on the web. Many of these papers (including a series, cited in a footnote above, analyzing the causes and consequences of the 1997-99 Asian financial crisis) have dealt with particular problems in financial sector reform and with methods to address them. Over the ten years, 1988-97, the CAER programs assisted USAID staff with the whole range of host country policy reform. During one spring month in 2001, 40,000 users downloaded (not merely hit) discussion papers and briefing notes from the CAER website. But EM may be unable to maintain this website, and the EM staff have been unable to make any internal use of this document collection that has attracted such worldwide interest.

This lack of evaluations (done only for about a dozen of the tasks cited in the Master Table) and the abandoned economists' conference series are especially significant because of the way that most USAID staff work. Day-to-day responsibilities for tomorrow's project leave little or no time for looking back or sideways. Staff speak of this as "stovepipe" behavior that prevents sharing problems, solutions, or lessons that could be mutually useful if time permitted or if the Administrator were to make formal analysis, evaluations, and information exchange Agency priorities.

The lack of core money and the fact that most buy-ins come from missions result in most of the work cited here being done within individual countries. Only a small portion of programs are conducted on a regional level (less than 7% of financial sector development funding), though such things as regional stock exchanges may make more sense than a stock exchange in every little country (a great barrier to the latter is that a national stock exchange, no longer a national airline, seems now a necessary symbol of national modernity).

VII.D. Omissions by the Agency

Scanning Table 8, the major omission that stands out appears in the small numbers along the "enforcement" row. USAID has helped with legislation, organization, regulations and training but appears to have done relatively little to provide for reliable means of enforcing the rules and decisions of the regulators when the regulated ignore, evade, or defy the regulators' rules and decisions.

A second omission, as stated above, is the general lack of program evaluations. Many unanswered questions come to mind: what are now the final effects of the hundreds of tasks completed and under way, are the trained people successfully applying their training, are the reorganized or newly organized institutions functioning the way they should, are all the new and revised laws and regulations being enforced toward their intended ends? We won't know the answers to these questions until evaluations are implemented.

A third omission is less obvious: what has all this work revealed about sequencing? All participants seem to have understood from the start that if a Big Bang (simultaneous across-the board-reform; Poland provided a paradigm) is out of the question, then "appropriate" sequencing is important.

EM used funds from FSDP II's core to fund two conferences, in association with the Brookings Foundation, in October and November 1994. The first concentrated on financial services for the poor. The second addressed the overall financial sector. Papers from the second conference were assembled in a book titled, *Sequencing? Financial Strategy for Developing Countries*. Its introduction reports:

> The primary conclusion drawn from this book is that there is no optimal path to financial sector development…The task should be approached opportunistically; steps should be taken when they can be in pragmatic terms[21].

[21] *Alison Harwood and Bruce L.R. Smith, eds., Sequencing? Financial Strategies for Developing Countries, Brooking Institution Press, 1997, pp.2-3.*

With the accumulated experience over the seven years since that November conference, more, presumably, is known or could be known about sequencing. Even if practicality prevents optimal sequencing, optimal sequences might be described. But as yet, EM is in no position to draw the relevant lessons from the work it has been overseeing.

The universe of USAID financial sector reform efforts does suggest to a critic that the individual activities are undertaken with little reference to what relevant things other folks have done, are doing, or plan to do. The broad question, "how to sequence financial sector reform?" is only one of many questions that USAID experience might be drawn upon to answer. But the absence of SEGIR core money and of evaluations by E&E's FSP leave many questions unanswerable about what has been done, what has worked, what has failed, and how to do better.